

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**CITY OF COVINGTON, VIRGINIA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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INTRODUCTORY SECTION

CITY OF COVINGTON, VIRGINIA

CITY COUNCIL

	Thomas H. Sibold, Jr., Mayor	
David S. Crosier, Vice-Mayor		William E. "Lance" Carson, Jr.
Raymond C. Hunter		S. Allan Tucker

CITY SCHOOL BOARD

	Bert Baker, Chair	
Jonathan Arritt, Vice-Chair		Marie Fitzpatrick
Karen Kessinger		Jerry E.

OTHER OFFICIALS

Interim City Manager	Allen Dressler
City Finance Director	David Bryant, Jr.
City Attorney	Mark C. Popovich
Commissioner of the Revenue.....	Cathy M. Kimberlin
City Treasurer	Theresa Harrison
Superintendent of Schools	Melinda Snead-Johnson
Chief of Police	Christopher J. Smith

FINANCIAL SECTION



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Independent Auditors' Report

To the Honorable Members of the City Council
City of Covington, Virginia
Covington, Virginia

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Covington, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Change in Accounting Principle

As described in Note 24 to the financial statements, in 2022, the City adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 25 to the financial statements, in 2022, the City restated beginning balances to reflect the addition of a loan payable and related capital assets. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Covington, Virginia's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Covington, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Covington, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Covington, Virginia's basic financial statements. The accompanying combining and individual fund financial statements and schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund statements and schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical information but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2022, on our consideration of City of Covington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Covington, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Covington, Virginia's internal control over financial reporting and compliance.

Holmes, Finner, & Associates

Blacksburg, Virginia
November 27, 2022

CITY OF COVINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2022 (JULY 1, 2021 – JUNE 30, 2022)

As staff of the City of Covington, we offer readers of the City of Covington's financial statements this narrative overview and analysis of the financial activities of the City of Covington for the fiscal year ended June 30, 2022.

Financial Highlights

- In Governmental Activities, the assets and deferred outflows of resources of the City of Covington exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$10,218,600 "total net position".
- At the close of the current fiscal year, the City of Covington's governmental funds reported an unassigned general fund balance of \$10,444,474.
- At the close of the current fiscal year, the City of Covington's General Fund reported total fund balances of \$10,921,912.
- At the end of the current fiscal year, the General Fund unassigned fund balance was 53.71% of revenues which is above the adopted policy of 18% and 59.59% of expenditures in the General Fund for FY 22.

- **Overview of the Financial Statements**

The discussion and analysis provided here are intended to serve as an introduction to the City of Covington's basic financial statements. The City of Covington's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Covington's finances, in a manner similar to a private-sector business. The statement of net position presents financial information on all of the City of Covington's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Covington is improving or deteriorating.

The statement of activities presents information showing how the City of Covington's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Covington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the City of Covington include general government administration, judicial administration, public safety, public works, health and welfare, education, parks recreation and cultural activity, and community development. The business-type activities of the City of Covington include Enterprise activities in water, sewer, and solid waste.

The government-wide financial statements include not only the City of Covington itself (known as the primary government), but also a separate school system. Financial information for this component unit is reported separate from the financial information presented for the primary government itself. The water, sewer, and solid waste functions are departments of the City of Covington, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on Exhibits 1 and 2 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Covington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Covington can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Covington adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3-6 of this report.

Proprietary Funds: The City of Covington maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Covington uses enterprises funds to account for its Water, Sewer, and Solid Waste operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Solid Waste funds, which are considered to be major funds of the City of Covington.

The basic proprietary fund financial statements can be found on Exhibits 7-9 of this report.

Notes to the Financial Statements: The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic governmental financial statements.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information related to budget, component school board, supporting schedules, and other statistical information.

Government-wide Overall Financial Analysis

As noted earlier, total net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Covington, assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$21,913,931 at the close of the most recent fiscal year.

City of Covington's Net Position Statement of Net Position For the Year Ended June 30, 2022 and June 30, 2021

	Governmental Activities		Business-Type Activities		Total	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Assets:						
Current and other assets	\$ 19,354,138	\$ 16,423,547	\$ 7,581,541	\$ 7,296,607	\$ 26,935,679	\$ 23,720,154
Capital assets	26,314,710	26,830,673	25,891,870	26,719,143	52,206,580	53,549,816
Total Assets	\$ 45,668,848	\$ 43,254,220	\$ 33,473,411	\$ 34,015,750	\$ 79,142,259	\$ 77,269,970
Deferred Outflows						
of Resources	\$ 1,700,885	\$ 1,885,497	\$ 386,343	\$ 520,009	\$ 2,087,228	\$ 2,405,506
Liabilities:						
Current liabilities	\$ 6,614,381	\$ 6,551,633	\$ 1,699,642	\$ 1,802,601	\$ 8,314,023	\$ 8,354,234
Long-term liabilities	24,625,838	28,321,782	19,382,205	21,191,429	44,008,043	49,513,211
Total Liabilities	\$ 31,240,219	\$ 34,873,415	\$ 21,081,847	\$ 22,994,030	\$ 52,322,066	\$ 57,867,445
Deferred Inflows						
of Resources	\$ 5,910,914	\$ 3,507,407	\$ 1,082,577	\$ 235,030	\$ 6,993,491	\$ 3,742,437
Net Position:						
Net investment						
in capital assets	\$ 3,263,877	\$ 2,956,686	\$ 11,733,941	\$ 11,418,189	\$ 14,997,818	\$ 14,374,875
Restricted	480,790	736,210	679,235	678,272	1,160,025	1,414,482
Unrestricted	6,473,933	3,065,999	(717,845)	(789,762)	5,756,088	2,276,237
Total Net Position	\$ 10,218,600	\$ 6,758,895	\$ 11,695,331	\$ 11,306,699	\$ 21,913,931	\$ 18,065,594

The City of Covington's net position reflects \$52,206,580 in capital assets and its net investment in capital assets of \$14,997,818 (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City of Covington uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City of Covington's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Covington's net position represents resources that are subject to external restrictions on how they may be used. These restrictions total \$1,160,025 and are comprised of \$353,820 of unspent grants and \$806,205 restricted for debt service and bond covenant in the Business-Type Activities and the City owned Cemetery.

City of Covington's Statement of Activities
Statement of Activities
June 30, 2022 and June 30, 2021

	Governmental Activities		Business Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	\$ 471,444	\$ 422,531	\$ 5,370,258	\$ 5,544,849	\$ 5,817,526	\$ 5,967,380
Operating grants & contributions	3,294,608	4,432,625	-	-	3,294,608	4,432,625
Capital grants & contributions	215,097	488,686	112,770	67,534	327,867	556,220
General revenues:						
General property taxes	10,320,929	10,009,099	-	-	10,320,929	10,009,099
Other taxes	4,362,187	4,124,558	-	-	4,362,187	4,124,558
Unrestricted revenues from use of money and property	27,851	152,599	962	1,347	134,523	153,946
Grants and contributions not restricted to specific programs	803,624	831,269	-	-	803,624	831,269
Miscellaneous	226,541	47,064	140,700	28,010	285,707	75,074
Total revenues	\$ 19,722,281	\$ 20,508,431	\$ 5,624,690	\$ 5,641,740	\$ 25,346,971	\$ 26,150,171
Expenses:						
General government Administration	\$ 1,848,535	\$ 1,970,519	\$ -	\$ -	\$ 1,848,535	\$ 1,970,519
Public Safety	4,199,120	4,064,575	-	-	4,199,120	4,064,575
Public Works	2,524,691	5,231,539	-	-	2,524,691	5,231,539
Education	2,949,139	2,804,990	-	-	2,949,139	2,804,990
Culture and Recreation	1,531,584	1,773,009	-	-	1,531,584	1,773,009
Interest on long-term debt	929,248	697,453	-	-	929,248	697,453
Judicial Administration	310,745	288,948	-	-	310,745	288,948
Health and Welfare	2,062,817	2,461,954	-	-	2,062,817	2,461,954
Community Development	357,376	312,440	-	-	357,376	312,440
Water	-	-	1,649,494	1,694,954	1,649,494	1,694,954
Sanitation	-	-	1,794,434	1,817,185	1,794,434	1,817,185
Solid Waste	-	-	1,329,792	1,395,865	1,329,792	1,395,865
Total expenses	\$ 16,713,255	\$ 19,605,427	\$ 4,773,720	\$ 4,908,004	\$ 21,486,975	\$ 24,513,431
Increase (decrease) in net position	\$ 3,009,026	\$ 903,004	\$ 850,970	\$ 733,736	\$ 3,859,996	\$ 1,636,740
Transfers	462,336	388,992	(462,336)	(388,992)	-	-
Increase (decrease) in net position	\$ 3,471,362	\$ 1,291,996	\$ 388,634	\$ 344,744	\$ 3,859,996	\$ 1,636,740
Net Position - beginning	6,747,238	5,466,899	11,306,697	10,961,955	18,053,935	16,428,854
Ending net position	\$ 10,218,600	\$ 6,758,895	\$ 11,695,331	\$ 11,306,699	\$ 21,913,931	\$ 18,065,594

Governmental Activities: During the current fiscal year, Net Position for Governmental Activities increased \$3,471,362 from the prior fiscal year for an ending balance of \$10,218,600 based on beginning of fiscal year Net Position of \$6,747,238.

Business-type Activities: For the City of Covington's business-type activities, the results for the current fiscal year are positive in that overall net position increased to reach an ending balance of \$11,695,331. The total increase in net position for business-type activities (water, sewer, and solid-waste) was \$388,634 compared to the prior fiscal year.

Financial Analysis of Governmental Funds

As noted earlier, the City of Covington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City of Covington's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Covington's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Covington itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Covington's Council.

At June 30, 2022, the City of Covington's total governmental funds reported total fund balances of \$11,282,015. Of this amount, \$10,444,474 constitutes unassigned fund balance which increased \$3,221,884 from the previous fiscal year. The unassigned fund balance is available at the discretion of city council for use as deemed necessary. The remainder of the fund balance is:

- 1) Restricted – Amounts constrained for specific purposes by their providers (such as grantees, bondholders, higher levels of government), constitutional provisions, or by enabling legislation. Of the City's total fund balance, \$353,820 is considered restricted for grants and \$214,343 restricted for capital projects. The identified Non-Spendable amounts of \$77,996 and \$64,412 are from an early debt service payment in the General Fund and a not receivable in the General Fund.

The General Fund is the chief operating fund of the City of Covington. As a measure of the General Fund liquidity, it may be useful to compare unassigned fund balance to total general fund revenues. Unassigned fund balance represents approximately 53.71% of that same amount.

Proprietary Funds: The City of Covington's proprietary funds (Utility Fund) provide the same type of information found in the government-wide financial statements, but in more detail. The Water Fund finished FY 22 with \$8,002,626 in total net position while Sewer Fund finished at \$7,556,847 in total net position, and the newly created Solid-Waste Fund finished at (\$3,864,142) which was driven by debt related to new cell construction, new landfill equipment, and closure/post closure estimates. Closure/post closure dedicated funding continued as part of the FY 22 budget process as well for the Solid-Waste Fund.

General Fund Budgetary Highlights

During the year the budgetary expenditures in the general Fund were amended was mainly due to new and non-completion of projects related to public works projects (transportation enhancement), software, fire programs, housing jail prisoners as a joint service expenditure, and project carryovers which have corresponding revenue streams.

Positive local revenue budget variances were greatest realized in total general property taxes and total other local taxes. For more detailed revenue and expenditure information, please see Schedule 1 and Schedule 2.

Review of actual revenues and expenditures indicates that actual revenues for the General Fund were \$19,564,224 and expenditures for the General Fund were \$17,632,919.

Capital Assets and Debt Administration

Capital Assets: The City of Covington's investment in capital assets for its governmental and business-type activities as of June 30, 2022 were \$52,206,580 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, the water treatment plant, the wastewater treatment plant, and the Peter's Mountain landfill.

The city's total capital assets as of June 30, 2022 were \$26,314,710 in Governmental Activities and \$25,891,870 in Business Type (Enterprise) Activities. For the fourth year, Solid-Waste Services (Landfill) are included in Business Type Activities as well as Water and Waste Water (Sewer) Services.

Please see additional information on the City of Covington's Capital Assets that can be found in Note 16 of this report

City of Covington's Capital Assets

Summary of Capital Assets for Governmental and Business Type Activities

As of June 30, 2022 and June 30, 2021

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 1,967,944	\$ 1,967,944	\$ -	\$ -	\$ 1,967,944	\$ 1,967,944
Buildings and improvements	18,529,337	18,997,777	-	-	18,529,337	18,997,777
Improvements other than buildings	-	-	-	-	-	-
Machinery and equipment	3,055,015	1,179,962	1,358,662	1,530,617	4,413,677	2,710,579
Infrastructure	2,259,239	1,611,945	24,042,531	25,021,187	26,301,770	26,633,132
Construction in progress	337,869	3,073,045	490,677	167,339	828,546	3,240,384
Right to use assets Mach. & Equip	207,231	-	-	-	207,231	-
Accumulated Amortization	(41,925)	-	-	-	(41,925)	-
Total	\$ 26,314,710	\$ 26,830,673	25,891,870	26,719,143	\$ 52,206,580	\$ 53,549,816

Debt Administration

The City of Covington's total debt and liability by the end of FY 22 decreased driven by significant projected decreases in Net Pension Liability. Additional detailed information on these costs can be found in Note #9.

The Primary Government has "other liability" related Compensated Absences, Other Post-Employment Benefits (OPEB), and Net Pensions Liability as documented in the chart below. Pension contributions are budgeted annually and administered the Virginia Retirement System.

In Business-Type Activities, two of the three revenue bonds are held at zero % interest thru the Virginia Resources Authority. Although costly, over the last seven years, the city realized the need for infrastructure improvements by beginning and completing projects as they are fiscally and feasibly possible through rate increases, borrowings, and strategic use of proprietary funds reserves.

The Component Unit School Board has "other liability" as well related to Compensated Absences (\$323,913), Other Post-Employment Benefits (OPEB) (\$1,756,664), and Net Pensions Liability (\$5,179,169) as documented in Notes #9-#15. The school system also has finance purchase indebtedness in the amount of \$60,050 for school buses as of June 30, 2022.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the assessed value of taxable real estate. The current debt limitation for the City of Covington is \$29,424,302 with General Obligation debt currently at \$22,627,195. As of June 30, 2022, the legal debt margin stands at \$6,797,107.

City of Covington's Outstanding Debt

Summary of Outstanding Debt and Liability

For the Year Ended June 30, 2022 and June 30, 2021

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
General Obligation Refunding Bonds	\$ 12,886,236	\$ 13,711,686	\$ -	\$ -	\$ 12,886,236	\$ 13,711,686
Deferred Amounts						
Bond Premiums	785,959	405,813	188,051	199,113	974,010	604,926
Literary Loans	8,955,000	9,425,000	-	-	8,955,000	9,425,000
Revenue Bonds	-	-	13,219,526	13,865,726	13,219,526	13,865,726
Finance Purchase	1,090,470	1,249,171	1,020,352	1,236,115	2,110,822	2,485,286
Landfill Closure/Post Closure Liability	-	-	5,344,946	5,155,967	5,344,946	5,155,967
Leases Payable	166,779	-	-	-	166,779	-
Compensated Abences	216,377	268,908	58,623	86,324	275,000	355,232
Net OPEB Liabilities	707,241	852,846	258,605	324,292	965,846	1,177,138
Net Pension Liability	1,598,148	4,315,228	584,368	1,640,861	2,182,516	5,956,089
Total	\$ 26,406,210	\$ 30,228,652	\$ 20,674,471	\$ 22,508,398	\$ 47,080,681	\$ 52,737,050

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect the City of Covington and were considered in developing the 2023 Fiscal Year Budget:

- Funding has been acquired and grant requests written as the city will be actively involved in both local and regional economic development projects in FY 23 including development of a joint pad site with Alleghany County.
- As of June 30, 2022 the City of Covington's unemployment rate was at 3.9% per VEC reporting.
- Rate increases in Business-Type Activity Funds in Water and Sewer (\$1.00 each) were enacted for non-metered customers with proportionate increases for metered services as well. There were no changes to Solid-Waste charges in the FY 2023 Budget.
- Real Estate Taxes per \$100.00 of value remained the same \$0.85 in the FY 23 budget and still remains one of the lowest rates in Virginia for an independent city that also provides for full governmental services and a joint school system.
- The FY 23 General Fund revenue budget was increased in strategic areas based on projected revenue growth impacts anticipated.
- The current budget includes \$111,000 to be set aside and again budgeted at the same level the next additional year to create a city match of approximately \$444,000 for the Rayon Bridge Project currently projected to begin in 2026 or 2027 (Project in preliminary engineering phases).
- No unassigned fund balance was utilized to balance the 2022-2023 General Fund Budget.
- The city has embarked on a paving assessment plan that is included in the budget for the seventh straight year after no such prior dedicated efforts. Additionally, paving improvements during FY 23 will also continue to be funded as well as the addition of bridge maintenance funding at the local level. Local funding is increased at \$675,000 for street paving and \$100,000 for sidewalks. Also, \$50,000 for bridge maintenance and \$45,000 for related engineering services are included in the FY 23 Budget.
- The current budget includes \$37,500 specifically for storm water improvements which is in the budget for the fourth consecutive year as a newer infrastructure line item.
- The second phase of the Maple Avenue Streetscape Project was completed in FY 22 with a VDOT/Federal 80/20 match program. Phase 3 of this project is anticipated to be completed in budget year FY 23.

Requests for Information: This financial report is designed to provide a general overview of the City of Covington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance & Administration, 333 W. Locust Street, Covington, VA, 24426.

Basic Financial Statements

City of Covington, Virginia
Statement of Net Position
June 30, 2022

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	School Board
ASSETS				
Cash and cash equivalents	\$ 14,089,445	\$ 5,853,692	\$ 19,943,137	\$ 494,778
Cash held at schools	-	-	-	112,026
Investments	200,228	-	200,228	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	3,472,687	-	3,472,687	-
Other local taxes receivable	211,083	-	211,083	-
Accounts receivable	77,466	1,036,644	1,114,110	2,567
Notes receivable	64,412	-	64,412	-
Due from component unit	392,582	-	392,582	-
Due from other governmental units	768,239	11,970	780,209	544,821
Prepaid items	77,996	-	77,996	-
Restricted assets:				
Cash and cash equivalents	-	679,235	679,235	-
Capital assets not being depreciated:				
Land	1,967,944	-	1,967,944	89,663
Construction in progress	337,869	490,677	828,546	-
Capital assets, net of accumulated depreciation:				
Buildings and improvements	18,529,337	-	18,529,337	1,404,005
Machinery and equipment	3,055,015	1,358,662	4,413,677	683,147
Infrastructure	2,259,239	24,042,531	26,301,770	-
Right-to-use assets, net of accumulated amortization				
Machinery and equipment	165,306	-	165,306	-
Total Assets	\$ 45,668,848	\$ 33,473,411	\$ 79,142,259	\$ 3,331,007
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$ 619,268	\$ -	\$ 619,268	\$ -
Pension related items	939,422	336,030	1,275,452	1,876,695
OPEB related items	142,195	50,313	192,508	404,323
Total Deferred Outflows of Resources	\$ 1,700,885	\$ 386,343	\$ 2,087,228	\$ 2,281,018
LIABILITIES				
Accounts payable	\$ 343,472	\$ 100,080	\$ 443,552	\$ 153,761
Accrued liabilities	126,539	31,007	157,546	495,823
Unearned revenue	14,255	-	14,255	-
Unearned revenue - CARES grant	136,094	-	136,094	-
Unearned revenue - ARPA grant	3,940,603	-	3,940,603	-
Customers' deposits	-	219,090	219,090	392,582
Accrued interest payable	273,046	57,199	330,245	1,179
Noncurrent liabilities:				
Due within one year	1,780,372	1,292,266	3,072,638	281,333
Due in more than one year	24,625,838	19,382,205	44,008,043	7,038,463
Total Liabilities	\$ 31,240,219	\$ 21,081,846	\$ 52,322,065	\$ 8,363,141
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ 2,994,035	\$ -	\$ 2,994,035	\$ -
Pension related items	2,422,678	901,872	3,324,550	4,462,582
OPEB related items	494,201	180,705	674,906	302,109
Total Deferred Inflows of Resources	\$ 5,910,914	\$ 1,082,577	\$ 6,993,491	\$ 4,764,691
NET POSITION				
Net investment in capital assets	\$ 3,263,877	\$ 11,733,941	\$ 14,997,818	\$ 2,116,765
Restricted nonexpendable:				
Cemetery care	126,970	-	126,970	-
Restricted expendable:				
Grants	353,820	-	353,820	-
Debt Service	-	679,235	679,235	-
School activity fund	-	-	-	112,026
Unrestricted (deficit)	6,473,933	(717,845)	5,756,088	(9,744,598)
Total Net Position (deficit)	\$ 10,218,600	\$ 11,695,331	\$ 21,913,931	\$ (7,515,807)

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Activities
For the Year Ended June 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating		Capital Grants and Contributions	Primary Government		
			Grants and Contributions	Grants and Contributions		Governmental Activities	Business-type Activities	Component Unit
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,848,535	\$ 3,100	\$ 348,884	\$ -	-	\$ (1,496,551)	\$ (1,496,551)	
Judicial administration	310,745	711	-	-	-	(310,034)	(310,034)	
Public safety	4,199,120	344,865	325,904	54,603	54,603	(3,473,748)	(3,473,748)	
Public works	2,524,691	8,141	1,310,627	149,994	149,994	(1,055,929)	(1,055,929)	
Health and welfare	2,062,817	-	1,288,371	-	-	(774,446)	(774,446)	
Education	2,949,139	-	-	-	-	(2,949,139)	(2,949,139)	
Parks, recreation, and cultural	1,531,584	114,452	4,672	-	-	(1,412,460)	(1,412,460)	
Community development	357,376	175	16,150	10,500	10,500	(330,551)	(330,551)	
Interest on long-term debt	929,248	-	-	-	-	(929,248)	(929,248)	
Total governmental activities	\$ 16,713,255	\$ 471,444	\$ 3,294,608	\$ 215,097		\$ (12,732,106)	\$ (12,732,106)	
Business-type activities:								
Water	\$ 1,649,494	\$ 2,271,230	\$ -	\$ -	-	\$ 621,736	\$ 621,736	
Sewer	1,794,434	1,566,134	-	112,770	112,770	(115,530)	(115,530)	
Solid Waste	1,329,792	1,532,894	-	-	-	203,102	203,102	
Total business-type activities	\$ 4,773,720	\$ 5,370,258	\$ -	\$ 112,770		\$ 709,308	\$ 709,308	
Total primary government	\$ 21,486,975	\$ 5,841,702	\$ 3,294,608	\$ 327,867		\$ (12,732,106)	\$ (12,022,798)	
COMPONENT UNIT:								
School Board	\$ 11,858,494	\$ 108,014	\$ 9,982,747	\$ -	-	\$ -	\$ -	\$ (1,767,733)
General revenues and transfers:								
General property taxes						\$ 10,320,929	\$ -	\$ 10,320,929
Other local taxes:								
Local sales and use taxes						1,657,290	-	1,657,290
Consumers' utility taxes						383,985	-	383,985
Consumption taxes						22,953	-	22,953
Business license taxes						619,910	-	619,910
Motor vehicle licenses						206,689	-	206,689
Bank stock taxes						243,115	-	243,115
Recordation taxes						43,078	-	43,078
Hotel and motel room taxes						38,254	-	38,254
Restaurant food taxes						1,051,053	-	1,051,053
Tobacco taxes						95,860	-	95,860
Unrestricted revenues from use of money						-	962	300
Miscellaneous						27,851	28,813	185,645
Payments from the City of Covington						226,541	140,700	367,241
Grants and contributions not restricted to specific programs						-	-	-
Transfers						803,624	-	803,624
Total general revenues and transfers						\$ 16,203,468	\$ (320,674)	\$ 15,882,794
Change in net position								\$ 3,216,414
Net position (deficit) - beginning, as restated						\$ 3,471,362	\$ 388,634	\$ 3,859,996
Net position (deficit) - ending						6,747,238	11,306,697	18,053,935
								\$ (8,964,488)
						\$ 10,218,600	\$ 11,695,331	\$ 21,913,931
								\$ (7,515,807)

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Balance Sheet
Governmental Funds
June 30, 2022

	<u>General</u>	<u>City Capital Projects</u>	<u>CARES</u>	<u>ARPA</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 9,789,915	\$ 222,833	\$ 136,094	\$ 3,940,603	\$ -	\$ 14,089,445
Investments	73,258	-	-	-	126,970	200,228
Receivables (net of allowance for uncollectibles):						
Taxes receivable	3,472,687	-	-	-	-	3,472,687
Other local taxes receivables	211,083	-	-	-	-	211,083
Accounts receivable	77,466	-	-	-	-	77,466
Notes receivable	64,412	-	-	-	-	64,412
Due from component unit	392,582	-	-	-	-	392,582
Intergovernmental receivable	768,239	-	-	-	-	768,239
Prepaid items	59,206	-	18,790	-	-	77,996
Total assets	<u>\$ 14,908,848</u>	<u>\$ 222,833</u>	<u>\$ 154,884</u>	<u>\$ 3,940,603</u>	<u>\$ 126,970</u>	<u>\$ 19,354,138</u>
LIABILITIES						
Accounts payable	\$ 334,982	\$ 8,490	\$ -	\$ -	\$ -	\$ 343,472
Accrued liabilities	126,539	-	-	-	-	126,539
Unearned revenue	14,255	-	-	-	-	14,255
Unearned revenue - CARES grant	-	-	136,094	-	-	136,094
Unearned revenue - ARPA grant	-	-	-	3,940,603	-	3,940,603
Total liabilities	<u>\$ 475,776</u>	<u>\$ 8,490</u>	<u>\$ 136,094</u>	<u>\$ 3,940,603</u>	<u>\$ -</u>	<u>\$ 4,560,963</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	<u>\$ 3,511,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,511,160</u>
FUND BALANCES						
Nonspendable:						
Prepaid items	\$ 59,206	\$ -	\$ 18,790	\$ -	\$ -	\$ 77,996
Cemetery care	-	-	-	-	126,970	126,970
Note receivable	64,412	-	-	-	-	64,412
Restricted:						
Grants	353,820	-	-	-	-	353,820
Capital projects	-	214,343	-	-	-	214,343
Unassigned						
Unassigned	10,444,474	-	-	-	-	10,444,474
Total fund balances	<u>\$ 10,921,912</u>	<u>\$ 214,343</u>	<u>\$ 18,790</u>	<u>\$ -</u>	<u>\$ 126,970</u>	<u>\$ 11,282,015</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,908,848</u>	<u>\$ 222,833</u>	<u>\$ 154,884</u>	<u>\$ 3,940,603</u>	<u>\$ 126,970</u>	<u>\$ 19,354,138</u>

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2022

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	11,282,015
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 1,967,944		
Buildings and improvements	18,529,337		
Machinery, equipment, and vehicles	3,220,321		
Infrastructure	2,259,239		
Construction in progress	337,869		
	26,314,710		26,314,710

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.

Unavailable revenue - property taxes		517,125
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Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds

Pension related items	\$ 939,422		
OPEB related items	142,195		
	1,081,617		1,081,617

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

General obligation bonds	\$ (12,886,236)		
Less: Deferred charges on refunding	619,268		
Literary Loans	(8,955,000)		
Finance purchases	(1,090,470)		
Unamortized premium	(785,959)		
Leases payable	(166,779)		
Compensated absences	(216,377)		
Accrued interest payable	(273,046)		
Net OPEB liabilities	(707,241)		
Net pension liability	(1,598,148)		(26,059,988)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

Pension related items	\$ (2,422,678)		
OPEB related items	(494,201)		
	(2,916,879)		(2,916,879)

Net position of governmental activities	\$	10,218,600
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The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2022

	<u>General</u>	<u>City Capital Projects</u>	<u>CARES</u>	<u>ARPA</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
REVENUES						
General property taxes	\$ 10,347,104	\$ -	\$ -	\$ -	\$ -	\$ 10,347,104
Other local taxes	4,362,187	-	-	-	-	4,362,187
Permits, privilege fees, and regulatory licenses	22,572	-	-	-	-	22,572
Fines and forfeitures	4,520	-	-	-	-	4,520
Revenue from the use of money and property	52,027	-	-	-	-	52,027
Charges for services	420,176	-	-	-	-	420,176
Miscellaneous	226,541	-	-	-	-	226,541
Recovered costs	44,868	-	-	-	-	44,868
Intergovernmental:						
Commonwealth	3,813,150	-	-	-	-	3,813,150
Federal	271,079	-	122,475	106,625	-	500,179
Total revenues	<u>\$ 19,564,224</u>	<u>\$ -</u>	<u>\$ 122,475</u>	<u>\$ 106,625</u>	<u>\$ -</u>	<u>\$ 19,793,324</u>
EXPENDITURES						
Current:						
General government administration	\$ 1,810,275	\$ -	\$ 156,222	\$ 7,973	\$ -	\$ 1,974,470
Judicial administration	310,745	-	-	-	-	310,745
Public safety	4,113,828	-	295	-	-	4,114,123
Public works	2,300,873	-	273	83,652	20,399	2,405,197
Health and welfare	2,057,077	-	3,500	-	-	2,060,577
Education	2,344,283	-	-	-	-	2,344,283
Parks, recreation, and cultural	1,782,699	-	172	-	-	1,782,871
Community development	313,008	-	-	15,000	-	328,008
Nondepartmental	218,124	-	-	-	-	218,124
Capital projects	-	29,368	-	-	-	29,368
Debt service:						
Principal retirement	1,539,993	-	-	-	-	1,539,993
Interest and other fiscal charges	707,440	-	-	-	-	707,440
Bond issuance costs	134,574	47,358	-	-	-	181,932
Total expenditures	<u>\$ 17,632,919</u>	<u>\$ 76,726</u>	<u>\$ 160,462</u>	<u>\$ 106,625</u>	<u>\$ 20,399</u>	<u>\$ 17,997,131</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 1,931,305</u>	<u>\$ (76,726)</u>	<u>\$ (37,987)</u>	<u>\$ -</u>	<u>\$ (20,399)</u>	<u>\$ 1,796,193</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 462,498	\$ -	\$ -	\$ -	\$ -	\$ 462,498
Transfers out	-	-	(162)	-	-	(162)
Payment to refund bond anticipation note	(2,287,686)	-	-	-	-	(2,287,686)
Issuance of revenue refunding bond	2,443,069	-	-	-	-	2,443,069
Issuance of lease liabilities	106,217	-	-	-	-	106,217
Issuance of general obligation bond	-	68,236	-	-	-	68,236
Total other financing sources (uses)	<u>\$ 724,098</u>	<u>\$ 68,236</u>	<u>\$ (162)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 792,172</u>
Net change in fund balances	\$ 2,655,403	\$ (8,490)	\$ (38,149)	\$ -	\$ (20,399)	\$ 2,588,365
Fund balances - beginning	8,266,509	222,833	56,939	-	147,369	8,693,650
Fund balances - ending	<u>\$ 10,921,912</u>	<u>\$ 214,343</u>	<u>\$ 18,790</u>	<u>\$ -</u>	<u>\$ 126,970</u>	<u>\$ 11,282,015</u>

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2022

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	2,588,365
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital asset additions	\$ 710,574	
Depreciation/amortization expense	<u>(1,353,565)</u>	(642,991)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.

Loss on disposal of assets		(182,169)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue - property taxes and other local taxes		(26,175)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of general obligation bonds	\$ (2,443,069)	
Less: Payment to refund bond anticipation note	2,287,686	
Issuance of bond anticipation notes	(68,236)	
Issuance of lease liabilities	(106,217)	
Principal Payments:		
General obligation bonds	651,000	
Lease liabilities	40,452	
Finance purchases	378,541	
Literary loans	<u>470,000</u>	1,210,157

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Compensated absences	\$ 52,531	
Amortization of bond premiums	17,923	
Amortization of deferred amount on refundings	(69,107)	
Accrued interest payable	11,308	
Change in pension related items	457,936	
Change in OPEB related items	<u>53,584</u>	524,175

Change in net position of governmental activities	\$	<u><u>3,471,362</u></u>
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The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2022

	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,782,917	\$ 1,039,012	\$ 1,031,763	\$ 5,853,692
Accounts receivable	589,352	262,957	184,335	1,036,644
Due from other governmental units	-	11,970	-	11,970
Restricted current assets:				
Cash and cash equivalents	382,938	296,297	-	679,235
Total current assets	<u>\$ 4,755,207</u>	<u>\$ 1,610,236</u>	<u>\$ 1,216,098</u>	<u>\$ 7,581,541</u>
Noncurrent assets:				
Capital assets:				
Utility plant in service	\$ 15,980,454	\$ 22,827,793	\$ 3,204,170	\$ 42,012,417
Accumulated depreciation	(7,212,658)	(9,568,841)	(2,514,815)	(19,296,314)
Machinery and equipment	-	-	2,685,090	2,685,090
Construction in progress	-	490,677	-	490,677
Total capital assets	<u>\$ 8,767,796</u>	<u>\$ 13,749,629</u>	<u>\$ 3,374,445</u>	<u>\$ 25,891,870</u>
Total assets	<u>\$ 13,523,003</u>	<u>\$ 15,359,865</u>	<u>\$ 4,590,543</u>	<u>\$ 33,473,411</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 117,442	\$ 96,609	\$ 121,979	\$ 336,030
OPEB related items	18,474	15,366	16,473	50,313
Total deferred outflows of resources	<u>\$ 135,916</u>	<u>\$ 111,975</u>	<u>\$ 138,452</u>	<u>\$ 386,343</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 36,303	\$ 50,021	\$ 13,756	\$ 100,080
Wages payable	12,141	9,420	9,446	31,007
Customers' deposits	79,286	87,328	52,476	219,090
Accrued interest payable	35,588	-	21,611	57,199
Compensated absences - current portion	21,881	11,333	10,754	43,968
Loans payable - current portion	-	-	193,952	193,952
Bonds payable - current portion	221,062	597,484	235,800	1,054,346
Total current liabilities	<u>\$ 406,261</u>	<u>\$ 755,586</u>	<u>\$ 537,795</u>	<u>\$ 1,699,642</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 4,531,989	\$ 6,557,942	\$ 1,263,300	\$ 12,353,231
Net OPEB liabilities	95,736	79,212	83,657	258,605
Compensated absences - net of current portion	7,294	3,778	3,583	14,655
Loans payable - net of current portion	-	-	826,400	826,400
Landfill closure/postclosure estimate	-	-	5,344,946	5,344,946
Net pension liability	216,333	178,995	189,040	584,368
Total noncurrent liabilities	<u>\$ 4,851,352</u>	<u>\$ 6,819,927</u>	<u>\$ 7,710,926</u>	<u>\$ 19,382,205</u>
Total liabilities	<u>\$ 5,257,613</u>	<u>\$ 7,575,512</u>	<u>\$ 8,248,721</u>	<u>\$ 21,081,846</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 331,783	\$ 284,129	\$ 285,960	\$ 901,872
OPEB related items	66,897	55,352	58,456	180,705
Total deferred inflows of resources	<u>\$ 398,680</u>	<u>\$ 339,481</u>	<u>\$ 344,416</u>	<u>\$ 1,082,577</u>
NET POSITION				
Net investment in capital assets	\$ 4,284,745	\$ 6,594,203	\$ 854,993	\$ 11,733,941
Restricted for debt service and bond covenants	382,938	296,297	-	679,235
Unrestricted	<u>3,334,943</u>	<u>666,347</u>	<u>(4,719,135)</u>	<u>(717,845)</u>
Total net position	<u>\$ 8,002,626</u>	<u>\$ 7,556,847</u>	<u>\$ (3,864,142)</u>	<u>\$ 11,695,331</u>

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2022

	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
OPERATING REVENUES				
Charges for services:				
Water revenues	\$ 2,264,292	\$ -	\$ -	\$ 2,264,292
Sewer revenues	-	1,566,024	-	1,566,024
Penalties	6,938	110	1,420	8,468
Waste Collection Disposal	-	-	969,263	969,263
Landfill Charges	-	-	472,982	472,982
Sludge Fees	-	-	89,229	89,229
Miscellaneous	69,955	59,977	10,768	140,700
Total operating revenues	\$ 2,341,185	\$ 1,626,111	\$ 1,543,662	\$ 5,510,958
OPERATING EXPENSES				
Salaries and wages	\$ 412,404	\$ 312,821	\$ 367,608	\$ 1,092,833
Fringes	114,372	106,823	138,565	359,760
Contracted services	121,854	136,166	78,327	336,347
Other charges	470,135	462,720	202,616	1,135,471
Purchase of equipment	5,834	96,793	20,000	122,627
Lease/rent of equipment	716	-	1,835	2,551
Depreciation	391,593	622,111	230,117	1,243,821
Landfill closure	-	-	231,938	231,938
Total operating expenses	\$ 1,516,908	\$ 1,737,434	\$ 1,271,006	\$ 4,525,348
Operating income (loss)	\$ 824,277	\$ (111,323)	\$ 272,656	\$ 985,610
NONOPERATING REVENUES (EXPENSES)				
Interest income	\$ 757	\$ 205	\$ -	\$ 962
Interest expense	(132,586)	-	(58,786)	(191,372)
Bond issuance costs	-	(57,000)	-	(57,000)
Total nonoperating revenues (expenses)	\$ (131,829)	\$ (56,795)	\$ (58,786)	\$ (247,410)
Income (loss) before transfers and capital contributions and grants	\$ 692,448	\$ (168,118)	\$ 213,870	\$ 738,200
Capital contributions and construction grants	\$ -	\$ 112,770	\$ -	\$ 112,770
Transfers in	-	180,797	81	180,878
Transfers out	(427,564)	(169,815)	(45,835)	(643,214)
Change in net position	\$ 264,884	\$ (44,366)	\$ 168,116	\$ 388,634
Net position - beginning	7,737,742	7,601,213	(4,032,258)	11,306,697
Net position - ending	\$ 8,002,626	\$ 7,556,847	\$ (3,864,142)	\$ 11,695,331

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2022

	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 2,244,243	\$ 1,667,995	\$ 1,536,345	\$ 5,448,583
Payments to suppliers	(591,874)	(799,731)	(336,595)	(1,728,200)
Payments to employees	(591,829)	(482,655)	(545,319)	(1,619,803)
Net cash provided by (used for) operating activities	\$ 1,060,540	\$ 385,609	\$ 654,431	\$ 2,100,580
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ (427,564)	\$ (169,815)	\$ (45,835)	\$ (643,214)
Transfers from other funds	-	180,797	81	180,878
Net cash provided by (used for) noncapital financing activities	\$ (427,564)	\$ 10,982	\$ (45,754)	\$ (462,336)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of assets	\$ -	\$ (411,032)	\$ (5,517)	\$ (416,549)
Principal payments on bonds	(205,000)	(589,900)	(230,500)	(1,025,400)
Principal payments on finance purchases	-	-	(215,763)	(215,763)
Capital grants	-	112,770	-	112,770
Proceeds from indebtedness	-	379,200	-	379,200
Bond issuance costs	-	(57,000)	-	(57,000)
Interest payments	(144,949)	-	(62,389)	(207,338)
Net cash provided by (used for) capital and related financing activities	\$ (349,949)	\$ (565,962)	\$ (514,169)	\$ (1,430,080)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	\$ 757	\$ 205	\$ -	\$ 962
Net increase (decrease) in cash and cash equivalents	\$ 283,784	\$ (169,166)	\$ 94,508	\$ 209,126
Cash and cash equivalents - beginning (including restricted cash and cash equivalents of \$678,272)	3,882,071	1,504,475	937,255	6,323,801
Cash and cash equivalents - ending (including restricted cash and cash equivalents of \$679,235)	\$ 4,165,855	\$ 1,335,309	\$ 1,031,763	\$ 6,532,927
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 824,277	\$ (111,323)	\$ 272,656	\$ 985,610
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	\$ 391,593	\$ 622,111	\$ 230,117	\$ 1,243,821
(Increase) decrease in accounts receivable	(85,703)	34,813	(12,948)	(63,838)
(Increase) decrease in intergovernmental receivables	-	(11,970)	-	(11,970)
(Increase) decrease in deferred outflows of resources	43,849	48,480	41,337	133,666
Increase (decrease) in customer deposits	(11,239)	19,041	5,631	13,433
Increase (decrease) in accounts payable	6,665	(104,052)	9,142	(88,245)
Increase (decrease) in wages payable	1,531	(401)	329	1,459
Increase (decrease) in compensated absences	(8,371)	(12,550)	(6,781)	(27,702)
Increase (decrease) in net OPEB liabilities	(24,038)	(23,377)	(18,272)	(65,687)
Increase (decrease) in net pension liability	(389,682)	(340,101)	(326,710)	(1,056,493)
Increase (decrease) in closure/postclosure estimate	-	-	188,979	188,979
Increase (decrease) in deferred inflows of resources	311,658	264,938	270,951	847,547
Total adjustments	\$ 236,263	\$ 496,932	\$ 381,775	\$ 1,114,970
Net cash provided by (used for) operating activities	\$ 1,060,540	\$ 385,609	\$ 654,431	\$ 2,100,580

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2022

	Custodial Funds
	<u>Drug Task Force Fund</u>
ASSETS	
Cash and cash equivalents	\$ 3,374
Total assets	<u>\$ 3,374</u>
LIABILITIES	
Accounts payable	\$ 221
Total liabilities	<u>\$ 221</u>
NET POSITION	
Restricted for:	
Held for drug task force	3,153
Total net position	<u><u>\$ 3,153</u></u>

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2022

	Custodial Funds
	<u>Drug Task Force Fund</u>
ADDITIONS	
Contribution from Alleghany Highlands Regional Drug Task Force	\$ <u>5,563</u>
Total additions	\$ <u>5,563</u>
DEDUCTIONS	
Task force supplies	\$ <u>6,351</u>
Total deductions	\$ <u>6,351</u>
Net increase (decrease) in fiduciary net position	\$ (788)
Net position - beginning	<u>3,941</u>
Net position - ending	<u><u>3,153</u></u>

The accompanying notes to the financial statements are an integral part of this statement

CITY OF COVINGTON, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies:

The financial statements of the City conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The City of Covington, Virginia is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - The City has no blended component units.

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the City's discretely presented component unit. It is reported in a separate column to emphasize that it is legally separate from the City.

The Covington City School Board operates the elementary and secondary public schools in the City. School Board members are appointed by the City. The School Board is fiscally dependent upon the City because the City approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type and included herein. No separate report is issued for the School Board.

Jointly Governed Organizations - The City is represented in the governing body of the Alleghany Highlands Community Service Board, the Charles Pinckney Jones Memorial Library, and the Alleghany-Covington Social Services Board.

The City along with the County of Alleghany, the Towns of Clifton Forge and Iron Gate participate in supporting the Alleghany Highlands Community Service Board. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions.

The City participates in the Alleghany Highlands Regional Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2022 was \$129,768.

The City participates in the Alleghany-Covington Social Services Board. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City is billed directly for costs associated with this organization on a monthly basis.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes, and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component unit. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense, the cost of “using up” capital assets, in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they have been earned and they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service principal and interest expenditures on general long-term debt, including lease liabilities, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the government the right to use lease assets, are reported as expenditures in the governmental funds. Issuance of long-term debt and financing through leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in other funds.

The City Capital Projects Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments.

The CARES Fund (Major Special Revenue Fund) accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for Coronavirus Relief Funds.

The ARPA Fund (Major Special Revenue Fund) accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for American Rescue Plan Act Funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The School Board reports the following major funds:

The School Operating Fund is the primary operating fund of the School Board and accounts for and reports all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from appropriations from the City and state and federal grants.

The School Cafeteria Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for cafeteria operation. The fund consists of the student collections, grants, and miscellaneous revenue less operating and capital expenditures related to cafeteria.

The School Activity Fund accounts for and reports all funds received from extracurricular school activities, such as entertainment, athletic contests, club dues, fundraisers, etc., and from any and all activities of the individual schools.

The government reports the following nonmajor governmental funds:

The Cemetery Fund (Permanent Fund) accounts for and reports financial resources that are restricted such that only earnings may be used for purposes that support the reporting government's programs (i.e. for the benefit of the government or its citizens). The Cemetery Fund accounts for investments and related earnings which are used to offset the cost of the Cedar Hill Cemetery.

The government reports the following major proprietary funds:

The City operates a sewage collection and treatment plant, a water filtration and distribution system, and a landfill. The activities of the systems are accounted for in the Water, Sewer, and Solid Waste Funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Additionally, the government reports the following fund types:

Fiduciary funds (trust and custodial funds) account for assets held by the government in a trustee capacity or as custodian for individuals, private organizations, other governmental units, or other funds. Fiduciary funds are not included in the government-wide financial statements. The Custodial fund consists of the drug task force fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund and the internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the government's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and Collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act").

2. Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, other nonparticipating investments and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

3. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$166,264 at June 30, 2022 and is comprised solely of property taxes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

4. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable on December 5th and June 5th. Personal property taxes are due and collectible annually on December 5th and June 5th. The City bills and collects its own property taxes.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed (except for intangible right-to-use assets (lease assets), the measurement of which is discussed in more detail below). Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment and infrastructure of the primary government, as well as of the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Capital assets:	
Buildings	40
Building improvements	40
Infrastructure	20-40
Machinery and equipment	4-30
Right-to-use assets:	
Machinery and equipment	4-30

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

7. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The City accrues salary-related payments associated with the payment of compensated absences.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

9. Fund Balance

The following classifications of fund balance describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are either not in spendable form (such as inventory and prepaid expenditures) or are legally or contractually required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;
- Committed fund balance - amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council adopts another ordinance to remove or revise the limitation;

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

9. Fund Balance (Continued)

- Assigned fund balance - amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

Committed Fund Balance Policy:

The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the City Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance Policy:

The City Council has authorized the City Manager or Finance Director as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance Policy:

The City will make every effort to maintain an unassigned fund balance in the general fund equal to or greater than 18% expenditures/operating revenues. The City considers a balance of less than 18% to be a cause for concern, barring unusual or deliberate circumstances.

Resource Flow Policy:

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned and unassigned, as they are needed.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditures/expense) until then. The City has two items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the short of the life of the refunded or refunding debt. The other item is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as in inflow of resources (revenue) until this time. The City has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to pension and OPEB are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's and School Board's Retirement Plan and the additions to/deductions from the City's and School Board's Retirement Plan's fiduciary net position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

12. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI, HIC and Teacher HIC OPEB Plans and the additions to/deductions from the VRS OPEB Plans' fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In addition to the VRS related OPEB, the City and School Board allows their retirees to stay on the health insurance plan after retirement. The retiree is required to pay the blended premium cost creating and implicit subsidy OPEB liability. In addition, retirees receive a monthly stipend towards their health insurance cost until the retiree is Medicare eligible.

13. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

14. Leases

The City leases various assets requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases.

Lessee

The City recognizes lease liabilities and intangible right-to-use lease assets (lease assets) with an initial value of \$5,000, individually or in the aggregate in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

Key Estimates and Judgments

Lease accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate stated in lease contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease and certain periods covered by options to extend to reflect how long the lease is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease incentives and certain other payments are included in the measurement of the lease liability (lessee).

The City monitors changes in circumstances that would require a remeasurement or modification of its leases. The City will remeasure the lease asset and liability (lessee) if certain changes occur that are expected to significantly affect the amount of the lease liability.

A. Budgetary Information

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: General Fund, School Operating Fund, Solid Waste Management Fund, Water Fund and Sewer Fund.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 2 - Stewardship, Compliance, and Accountability: (Continued)

A. Budgetary Information (Continued)

2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of two readings of a Budget Appropriations Ordinance.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation by function. The City Manager is authorized to transfer budgeted amounts within general government activities or departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by Project.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.
9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2022, the VRA Emergency Road Repair Project fund and the School Cafeteria Fund had expenses in excess of appropriations.

C. Deficit Fund Balance

At June 30, 2022, the Solid Waste Fund had a deficit fund balance.

Note 3 - Deposits and Investments:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporations (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 3 - Deposits and Investments: (Continued)

Investments

Statutes authorize the City and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard and Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker’s acceptances, repurchase agreements, and the State Treasurer’s Local Government Investment Pool (LGIP).

At June 30, 2022 and June 30, 2021, the City had 1,176 shares of MetLife Trust stock valued at \$62.29 and \$59.38 per share for a total value of \$73,258 and \$69,827, respectively. The City also had 2,677 shares of Truist Financial Corporation stock valued at \$47.43 and \$55.05 per share for a total value of \$126,970 and \$147,369, respectively.

The City’s rated debt investments as of June 30, 2022 were rated by Standard & Poor’s and the ratings are presented using the Standard & Poor’s rating scale.

City's Rated Debt Investment Values	
	Fair Quality Ratings
Rated Debt Investments	AAAm
State Non-arbitrage Pool (SNAP)	\$ 382,937

The City’s interest rate risk as of June 30, 2022:

Interest Rate Risk		
Investment type	Fair Value	Less than 1 yr
State Non-arbitrage Pool (SNAP)	\$ 382,937	\$ 382,937
MetLife Trust Stock	73,258	73,258
Truist Financial Corporation Stock	126,970	126,970

External Investment Pool

The value of the positions in the external investment pool (State Non-Arbitrage Pool) is the same as the value of the pool shares. As SNAP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. SNAP is an amortized cost basis portfolio. There are no withdrawal limitations or restrictions imposed on participants.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 4 - Fair Value:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The City maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The City has the following recurring fair value measurements as of June 30, 2022:

Investment	6/30/2022	Fair Value Measurement Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	
MetLife Trust Stock	\$ 73,258	\$	73,258
Truist Financial Corporation Stock	126,970		126,970

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 5 - Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	Primary Government		Component Unit
	Governmental	Business-type	School Board
<u>Commonwealth of Virginia:</u>			
Local sales tax	\$ 277,097	\$ -	\$ -
State sales tax	-	-	210,446
Non-categorical aid	39,158	-	-
Categorical aid - shared expenses	13,879	-	-
Categorical aid - Comprehensive Services Act	156,745	-	-
Categorical aid - VPA	2,613	-	-
Categorical aid - other	263,394	11,970	-
<u>Federal Government:</u>			
Categorical aid - VPA	4,354	-	-
Categorical aid - other	10,999	-	-
School federal programs	-	-	334,375
Totals	<u>\$ 768,239</u>	<u>\$ 11,970</u>	<u>\$ 544,821</u>

Note 6 - Interfund Transfers:

Interfund transfers for the year ended June 30, 2022, consisted of the following:

Fund	Transfers In	Transfers Out
Primary Government:		
General Fund	\$ 462,498	\$ -
CARES Fund	-	162
Water Fund	-	427,564
Sewer Fund	180,797	169,815
Solid Waste Fund	81	45,835
Total Primary Government	<u>\$ 643,376</u>	<u>\$ 643,376</u>
Component Unit-School Board:		
School Operating Fund	\$ -	\$ 95,183
School Activity Fund	95,183	-
Total	<u>\$ 95,183</u>	<u>\$ 95,183</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7 - Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2022:

	Balance July 1, 2021, as restated	GASB No. 87 Implementation	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2022
Direct borrowings and placements					
General obligation bonds	\$ 13,711,686	\$ -	\$ 2,113,236	\$ (2,938,686)	\$ 12,886,236
Deferred amounts:					
Premium	405,813	-	398,069	(17,923)	785,959
Literary loans	9,425,000	-	-	(470,000)	8,955,000
Finance purchases	1,469,011	-	-	(378,541)	1,090,470
Total direct borrowings and placements	\$ 25,011,510	\$ -	\$ 2,511,305	\$ (3,805,150)	\$ 23,717,665
Lease liabilities	-	101,014	106,217	(40,452)	166,779
Compensated absences	268,908	-	149,150	(201,681)	216,377
Net OPEB liabilities	852,846	-	118,949	(264,554)	707,241
Net pension liability	4,315,228	-	2,341,684	(5,058,764)	1,598,148
Total	\$ 30,448,492	\$ 101,014	\$ 5,227,305	\$ (9,370,601)	\$ 26,406,210

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	Direct Borrowings and Placements		Lease liabilities	
	Principal	Interest	Principal	Interest
2023	\$ 1,526,329	\$ 669,688	\$ 54,279	\$ 10,782
2024	1,494,722	634,238	47,876	8,135
2025	1,536,369	594,495	21,382	5,774
2026	1,527,073	551,027	23,738	3,419
2027	1,573,756	508,557	19,504	863
2028-2032	5,953,457	1,897,782	-	-
2033-2037	4,805,000	1,247,741	-	-
2038-2041	4,515,000	447,845	-	-
Totals	\$ 22,931,706	\$ 6,551,373	\$ 166,779	\$ 28,973

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7 - Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness: (Continued)

Details of long-term indebtedness:

	Rates	Date	Date	Amounts	Issue	Activities	One Year
Direct Borrowings and Placements							
GO Refunding Bond	2.47%	9/29/2015	2028	\$159,000-\$210,000 a+	\$ 2,410,000	\$ 1,183,000	\$ 183,000
VPSA GO Refunding Bond	5.05%-4.30%	11/21/2013	2041	\$90,000-\$1,580,000 a+	11,630,000	9,090,000	445,000
QZAB GO Bond	0.00%	11/30/2016	2031	\$50,000 a-	750,000	500,000	50,000
VRA Go Bond	5.13%	8/4/2021	2037	\$95,000-\$175,000 a+	2,045,000	2,045,000	95,000
Joint Pad - GO Bond	1.36%	11/16/2021	2023	\$68,236 a+	3,000,000	68,236	68,236
Literary Loans	2.00%	2/16/2016	2038	\$425,000-\$645,000 a+	11,645,000	8,955,000	480,000
Finance Purchase - VML/VACo Equip Series	2.17%	10/23/2017	2028	\$293,450-\$323,381 a+	1,568,987	925,590	150,133
Finance Purchase - Taser Project Axon	0.00%	7/15/2020	2025	\$54,960 a-	260,229	164,880	54,960
Total Direct Borrowings and Placements						<u>\$ 22,931,706</u>	<u>\$ 1,526,329</u>
Deferred Amount:							
Unamortized Premium	n/a	8/4/2021	n/a	n/a	\$ 398,069	\$ 398,069	\$ 18,492
Unamortized Premium	n/a	11/21/2013	n/a	n/a	496,278	387,890	18,989
Total Deferred Amounts						<u>\$ 785,959</u>	<u>\$ 37,481</u>
Lease Liabilities:							
Enterprise Unit #3988	10.63%	4/1/2022	2027	\$5,982-\$8,218 b	\$ 36,724	\$ 35,002	\$ 5,981
Enterprise Unit #1669	10.63%	4/1/2022	2027	\$6,001-\$8,244 b	36,842	35,115	6,001
Enterprise Unit #5602	10.19%	4/1/2022	2027	\$5,367-\$7,275 b	32,651	31,117	5,367
Datapatch Tower Lease	2.00%	4/1/2019	2024	\$28,615-\$36,930 b	176,035	65,545	36,930
Total Lease Liabilities						<u>\$ 166,779</u>	<u>\$ 54,279</u>
Other Obligations:							
Compensated Absences						\$ 216,377	\$ 162,283
Net OPEB Liabilities						707,241	-
Net pension liability						1,598,148	-
Total Long-Term Obligations						<u>\$ 26,406,210</u>	<u>\$ 1,780,372</u>

(a+) - annual principal installments shown; does not include semi-annual interest installments

(a-) - annual principal installments shown

(a) - annual installment including principal and interest

(b) - monthly principal installments; does not include monthly interest installments

The City's general obligations bonds are subject to the State Aid Intercept Program. Under terms of the program, the City state aid is redirected to bond holders to cure any event(s) of default.

Collateral for finance purchases and leases is the underlying assets. Default provisions for finance purchases and leases include repossession of the asset.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7 - Long-Term Obligations: (Continued)

Primary Government - Business-type Activities Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2022:

	Balance July 1, 2021	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2022
Direct borrowings and placements				
Revenue bonds	\$ 13,865,726	\$ 379,200	\$ (1,025,400)	\$ 13,219,526
Deferred amount:				
Premium	199,113	-	(11,062)	188,051
Finance purchases	1,236,115		(215,763)	1,020,352
Total direct borrowings and placements	\$ 15,300,954	\$ 379,200	\$ (1,252,225)	\$ 14,427,929
Landfill closure/postclosure estimate	5,155,967	188,979	-	5,344,946
Net OPEB liabilities	324,292	40,194	(105,881)	258,605
Compensated absences	86,324	37,042	(64,743)	58,623
Net pension liability	1,640,861	839,513	(1,896,006)	584,368
Total	\$ 22,508,398	\$ 1,484,928	\$ (3,318,855)	\$ 20,674,471

Annual requirements to amortize long-term obligations and the related interest are as follows:

Details of long-term indebtedness:

Year Ending June 30,	Direct Borrowings and Placements					
	Water		Sewer		Solid Waste	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 210,000	\$ 137,843	\$ 597,484	\$ -	\$ 429,752	\$ 52,201
2024	220,000	128,553	605,068	-	418,548	42,157
2025	225,000	121,284	605,068	-	406,470	32,842
2026	230,000	116,061	605,068	-	413,903	23,667
2027	235,000	110,399	605,068	-	421,554	14,321
2028-2032	1,290,000	449,380	3,019,591	-	429,225	4,802
2033-2037	1,490,000	240,348	936,465	-	-	-
2038-2042	665,000	23,523	98,190	-	-	-
2043-2047	-	-	75,840	-	-	-
2048	-	-	7,584	-	-	-
Totals	\$ 4,565,000	\$ 1,327,391	\$ 7,155,426	\$ -	\$ 2,519,452	\$ 169,990

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7 - Long-Term Obligation: (Continued)

Primary Government - Business-type Activities Indebtedness: (Continued)

Details of long-term indebtedness: (Continued)

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Direct Borrowings and Placements							
VRA Revenue Bond	0.00%	12/1/2010	2031	\$250,000 a	\$ 5,000,000	\$ 2,494,251	\$ 250,000
VRA Revenue Bond	0.00%	5/10/2012	2032	\$162,500-325,000 a	6,500,000	4,036,125	325,000
VRA Revenue Bond	2.04-4.83%	4/4/2013	2039	\$125,000-345,000 a+	5,395,000	1,500,000	170,000
VRA Revenue Bond	0.00%	4/10/2018	2038	\$7,450 sa	298,000	245,850	14,900
VRA Revenue Bond	1.94-3.44%	10/20/2019	2039	\$35,000-240,000 a+	3,140,000	3,065,000	40,000
VRA Revenue Bond	0.00%	5/1/2022	2048	\$7,584-15,168 sa	6,556,118	379,200	7,584
VML-VACO General Obligation Bond	2.28%	10/16/2017	2028	\$215,300-264,300 a+	2,390,500	1,499,100	235,800
Finance Purchase - Garbage Truck	3.15%	10/25/2018	2024	\$16,761-\$19,292 sa	180,000	56,983	37,691
Finance Purchase - VML/Vaco Equip Series	1.70%	10/23/2017	2028	\$293,450-\$323,381 a+	1,568,987	963,369	156,261
Total Direct Borrowings and Placements						\$ 14,239,878	\$ 1,237,236
Deferred Amount:							
Unamortized Premium	n/a	4/4/2013	n/a	n/a	\$ 720,990	\$ 188,051	\$ 11,062
Other Obligations:							
Compensated Absences						\$ 58,623	\$ 43,968
Landfill Closure/Post-Closure Liability						5,344,946	-
Net OPEB Liabilities						258,605	-
Net Pension Liability						584,368	-
Total Other Obligations						\$ 6,246,542	\$ 43,968
Total Long-Term Obligations						\$ 20,674,471	\$ 1,292,266
(a+) - annual principal installments shown; does not include semi-annual interest installments							
(a) - annual principal installments shown; no interest							
(sa) - semi-annual installments including interest, if applicable							

The City's general obligations bonds are subject to the State Aid Intercept Program. Under terms of the program, the City state aid is redirected to bond holders to cure any event(s) of default.

Collateral for finance purchases is the underlying assets. Default provisions for finance purchases include repossession of the asset.

Note 8 - Long-Term Obligations-Component Unit School Board:

Discretely Presented Component Unit - School Board-Indebtedness:

The following is a summary of long-term obligation transactions of the School Board for the year ended June 30, 2022:

	Balance July 1, 2021	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2022
Direct Borrowings and Placements				
Finance Purchases	\$ 97,303	\$ -	\$ (37,253)	\$ 60,050
Other Obligations				
Compensated absences	417,513	219,535	(313,135)	323,913
Net OPEB liabilities	1,928,629	380,990	(552,955)	1,756,664
Net pension liability	10,281,919	2,209,838	(7,312,588)	5,179,169
	\$ 12,725,364	\$ 2,810,363	\$ (8,215,931)	\$ 7,319,796

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 8 - Long-Term Obligations-Component Unit School Board: (Continued)

Discretely Presented Component Unit - School Board-Indebtedness: (Continued)

Annual requirements to amortize long-term obligations and the related interest are as follows:

Details of long-term indebtedness:

Year Ending June 30,	Direct Borrowings and Placements	
	Finance Purchases	
	Principal	Interest
2023	\$ 38,398	\$ 1,895
2024	10,650	715
2025	11,002	363
Totals	\$ 60,050	\$ 2,973

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Direct Borrowings and Placements							
Finance Purchase - De Lage 1	2.99%	10/18/2017	2023	\$28,088 a+	\$ 161,445	\$ 28,088	\$ 28,088
Finance Purchase - De Lage 2	3.30%	9/25/2017	2025	\$10,310-\$11,002 a+	62,500	31,962	10,310
Total Direct Borrowings and Placements						\$ 60,050	\$ 38,398
Other Obligations:							
Compensated absences						\$ 323,913	\$ 242,935
Net OPEB liabilities						1,756,664	-
Net pension liability						5,179,169	-
Total Long-term Obligations						\$ 7,319,796	\$ 281,333

(a+) - annual principal installments shown; does not include semi-annual interest installments

Collateral for finance purchases is the underlying assets. Default provisions for finance purchases include repossession of the asset.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan:

Plan Description

All full-time, salaried permanent employees of the City and (nonprofessional) employees of public school divisions are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees with a membership before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Benefit Structures (Continued)

- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2020 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Primary Government	Component Unit School Board Nonprofessional
Inactive members or their beneficiaries currently receiving benefits	99	22
Inactive members:		
Vested inactive members	6	6
Non-vested inactive members	15	3
Inactive members active elsewhere in VRS	17	9
Total inactive members	38	18
Active members	98	19
Total covered employees	235	59

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The City's contractually required employer contribution rate for the year ended June 30, 2022 was 14.61% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$506,769 and \$538,960 for the years ended June 30, 2022 and June 30, 2021, respectively.

The Component Unit School Board's contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2022 was 15.70% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Contributions (Continued)

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$69,367 and \$60,341 for the years ended June 30, 2022 and June 30, 2021, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The City's and Component Unit School Board's (nonprofessional) net pension liabilities were measured as of June 30, 2021. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2020 and rolled forward to the measurement date of June 30, 2021.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the City's and Component Unit School Board's (nonprofessional) Retirement Plan was based on an actuarial valuation as of June 30, 2020, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates:

All Others (Non-10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)**Actuarial Assumptions - General Employees (Continued)**

All Others (Non-10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits:

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2020, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)

Mortality rates:

All Others (Non-10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non-10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)***Long-Term Expected Rate of Return***

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return*</u>
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	<u>100.00%</u>		<u>4.89%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.39%</u>

* The above allocation provides a one-year expected return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the City and Component Unit School Board (nonprofessional) was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2021, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. Through the fiscal year ended June 30, 2021, the rate contributed by the employer for the City and Component Unit School Board (nonprofessional) Retirement Plans will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2021 on, participating employers and school divisions are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022Note 9 - Pension Plan: (Continued)*Changes in Net Pension Liability*

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2020	\$ 26,264,834	\$ 20,308,745	\$ 5,956,089
Changes for the year:			
Service cost	\$ 405,216	\$ -	\$ 405,216
Interest	1,722,906	-	1,722,906
Assumption changes	992,821	-	992,821
Differences between expected and actual experience	(714,113)	-	(714,113)
Contributions - employer	-	538,960	(538,960)
Contributions - employee	-	179,784	(179,784)
Net investment income	-	5,475,140	(5,475,140)
Benefit payments, including refunds of employee contributions	(1,480,613)	(1,480,613)	-
Administrative expenses	-	(13,993)	13,993
Other changes	-	512	(512)
Net changes	\$ 926,217	\$ 4,699,790	\$ (3,773,573)
Balances at June 30, 2021	\$ 27,191,051	\$ 25,008,535	\$ 2,182,516

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 9 - Pension Plan: (Continued)****Changes in Net Pension Liability (Continued)**

	Component Unit-School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2020	\$ 3,191,191	\$ 2,400,495	\$ 790,696
Changes for the year:			
Service cost	\$ 39,153	\$ -	\$ 39,153
Interest	209,560	-	209,560
Assumption changes	95,388	-	95,388
Differences between expected and actual experience	585	-	585
Contributions - employer	-	60,341	(60,341)
Contributions - employee	-	18,726	(18,726)
Net investment income	-	646,836	(646,836)
Benefit payments, including refunds of employee contributions	(173,208)	(173,208)	-
Administrative expenses	-	(1,657)	1,657
Other changes	-	61	(61)
Net changes	\$ 171,478	\$ 551,099	\$ (379,621)
Balances at June 30, 2021	\$ 3,362,669	\$ 2,951,594	\$ 411,075

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City and Component Unit School Board (nonprofessional) using the discount rate of 6.75%, as well as what the City's and Component Unit School Board's (nonprofessional) net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
City			
Net Pension Liability (Asset)	\$ 5,295,502	\$ 2,182,516	\$ (434,695)
Component Unit School Board (nonprofessional)			
Net Pension Liability (Asset)	\$ 748,886	\$ 411,075	\$ 123,133

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 9 - Pension Plan: (Continued)*****Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended June 30, 2022, the City and Component Unit School Board (nonprofessional) recognized pension expense of \$(57,260) and \$52,558, respectively. At June 30, 2022, the City and Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government		Component Unit-School Board (Nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 597,649	\$ 262	\$ -
Change in assumptions	746,961	-	42,687	-
Change in proportionate share	21,722	21,722	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,705,179	-	319,971
Employer contributions subsequent to the measurement date	506,769	-	69,367	-
Total	\$ 1,275,452	\$ 3,324,550	\$ 112,316	\$ 319,971

\$506,769 and \$69,367 reported as deferred outflows of resources related to pensions resulting from the City's and Component Unit School Board's (nonprofessional) contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Primary Government	Component Unit School Board (Nonprofessional)
2023	\$ (572,835)	\$ (32,027)
2024	(530,771)	(72,918)
2025	(626,167)	(74,471)
2026	(826,094)	(97,606)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/Publications/2021-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Component Unit School Board (Professional)

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system). Additional information regarding the plan description is included in the first section of this note.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each School Division's contractually required employer contribution rate for the year ended June 30, 2022 was 16.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Board were \$876,103 and \$868,920 for the years ended June 30, 2022 and June 30, 2021, respectively.

In June 2021, the Commonwealth made a special contribution of approximately \$61.3 million to the VRS Teacher Retirement Plan. This special payment was authorized by a budget amendment included in Chapter 552 of the 2021 Appropriation Act, and is classified as a non-employer contribution.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2022, the school division reported a liability of \$4,768,094 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2021 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2020, and rolled forward to the measurement date of June 30, 2021. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2021 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2021, the school division's proportion was 0.06142% as compared to 0.06520% at June 30, 2020.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Component Unit School Board (Professional) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2022, the school division recognized pension expense of \$(67,898). Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2022, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 406,118
Change in assumptions	835,358	-
Net difference between projected and actual earnings on pension plan investments	-	3,004,725
Changes in proportion and differences between employer contributions and proportionate share of contributions	52,918	731,768
Employer contributions subsequent to the measurement date	<u>876,103</u>	<u>-</u>
Total	\$ <u>1,764,379</u>	\$ <u>4,142,611</u>

\$876,103 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2023	\$ (805,613)
2024	(753,260)
2025	(745,885)
2026	(949,387)
Thereafter	(190)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Component Unit School Board (Professional) (Continued)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2020, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.95%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality rates:

Post-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Component Unit School Board (Professional) (Continued)

Actuarial Assumptions (Continued)

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2021, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	<u>Teacher Employee Retirement Plan</u>
Total Pension Liability	\$ 53,381,141
Plan Fiduciary Net Position	45,617,878
Employers' Net Pension Liability (Asset)	<u>\$ 7,763,263</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.46%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

The long-term expected rate of return and discount rate information previously described also apply to this plan.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 9 - Pension Plan: (Continued)

Component Unit School Board (Professional) (Continued)

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the net pension liability using the discount rate of 6.75%, as well as what the school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

		1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$	9,202,164	\$ 4,768,094	\$ 1,120,480

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/Publications/2021-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 10 - Aggregate Pension Information:

Aggregate Pension Information

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense
VRS Pension Plans:								
Primary Government	\$ 1,275,452	\$ 3,324,550	\$ 2,182,516	\$ (57,260)	\$ -	\$ -	\$ -	\$ -
School Board Nonprofessional	-	-	-	-	112,316	319,971	411,075	52,558
School Board Professional	-	-	-	-	1,764,379	4,142,611	4,768,094	(67,898)
Totals	\$ 1,275,452	\$ 3,324,550	\$ 2,182,516	\$ (57,260)	\$ 1,876,695	\$ 4,462,582	\$ 5,179,169	\$ (15,340)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11—Healthcare OPEB Plan:

Plan Description

The City administers a cost-sharing defined benefit healthcare plan, The City of Covington Postretirement Healthcare Plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the City’s pension plans. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits are provided to eligible retirees include Medical and Dental. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. All permanent employees of the City who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits. In addition, the City provides a fixed basic death benefit for all retirees.

Plan Membership

At June 30, 2021 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	97
Total retirees with coverage	<u>4</u>
Total	<u><u>101</u></u>

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the City Council. The amount paid by the City for OPEB as the benefits came due during the year ended June 30, 2022 was \$27,079.

Total OPEB Liability

The City’s total OPEB liability was measured as of June 30, 2021. The total OPEB liability was determined by an actuarial valuation as of June 30, 2021.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11—Healthcare OPEB Plan: (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry Age Normal, with Normal Cost determined as a percent of pay
Discount Rate	1.92% at June 30, 2021
Inflation	2.50%
Healthcare Trend Rate	6.00% in 2022, decreasing 0.25% per year to ultimate rate of 4.00%
Salary Increase Rates	4.00%
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates are based on the Pub-2010 Healthy Lives (separate tables for pre- and post-retirement and for males and females), projected to change from 2010 by the MP-2021 Scale.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

Discount Rate

The discount rate is based on the 20 year, high quality muni bond index published by Fidelity investments.

Changes in Total OPEB Liability

	Primary Government Total OPEB Liability
Balances at June 30, 2020 (Measurement Date)	\$ 648,719
Changes for the year:	
Service cost	\$ 25,104
Interest	16,177
Change in assumptions	(28,472)
Difference between actual and expected experience	(87,557)
Employer contributions	(27,082)
Net changes	\$ (101,830)
Balances at June 30, 2021 (Measurement Date)	\$ 546,889

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11—Healthcare OPEB Plan: (Continued)***Sensitivity of the Total OPEB Liability to Changes in the Discount Rate***

The following amounts present the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (0.92%) or one percentage point higher (2.92%) than the current discount rate:

Rate		
1% Decrease (0.92%)	Current Discount (1.92%)	1% Increase (2.92%)
\$ 511,661	\$ 546,889	\$ 584,900

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.00% decreasing to 3.00% by 2023) or one percentage point higher (7.00% decreasing to 5.00% by 2023) than the current healthcare cost trend rates:

Rates		
1% Decrease (5.00% decreasing to 3.00%)	Healthcare Cost Trend (6.00% decreasing to 4.00%)	1% Increase (7.00% decreasing to 5.00%)
\$ 522,641	\$ 546,889	\$ 567,304

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11—Healthcare OPEB Plan: (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2022, the City recognized OPEB expense in the amount of \$(47,403). At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 59,190	\$ 222,146
Changes in assumptions	20,073	329,126
Employer contributions subsequent to the measurement date	23,047	-
Total	<u>\$ 102,310</u>	<u>\$ 551,272</u>

\$23,047 reported as deferred outflows of resources related to OPEB resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2023	\$ (88,684)
2024	(88,686)
2025	(81,157)
2026	(100,119)
2027	(100,121)
Thereafter	(13,242)
Total	<u>\$ (472,009)</u>

Additional disclosures on changes in total OPEB liability and related ratios can be found in the required supplementary information following the notes to the financial statements.

Component Unit - School Board

Plan Description

The Component Unit - School Board administers a single-employer defined benefit healthcare plan, The Covington City Public Schools Postretirement Healthcare Plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the School Board's pension plans. The plan does not issue a publicly available financial report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11—Healthcare OPEB Plan: (Continued)

Component Unit - School Board (Continued)

Benefits Provided

Postemployment benefits are provided to eligible retirees include Medical and Dental. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. All permanent employees of the School Board who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits. In addition, the School Board provides a fixed basic death benefit for all retirees.

Plan Membership

At June 30, 2021 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	137
Total retirees with coverage	<u>10</u>
Total	<u><u>147</u></u>

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the School Board. The amount paid by the School Board for OPEB as the benefits came due during the year ended June 30, 2022 was \$33,745.

Total OPEB Liability

The School Board's total OPEB liability was measured as of June 30, 2021. The total OPEB liability was determined by an actuarial valuation as of June 30, 2021.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11—Healthcare OPEB Plan: (Continued)

Component Unit - School Board (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry Age Normal, with Normal Cost determined as a percent of pay
Discount Rate	1.92% at June 30, 2021
Inflation	2.50%
Healthcare Trend Rate	6.00% in 2021-22, decreasing 0.25% per year to ultimate rate of 4.00%
Salary Increase Rates	4.00%
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates are based on the Pub-2010 Healthy Lives (separate tables for pre- and post-retirement and for males and females), projected to change from 2010 by the MP-2021 Scale.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

Discount Rate

The discount rate is based on the 20 year, high quality muni bond index published by Fidelity Investments.

Changes in Total OPEB Liability

	Component Unit School Board Total OPEB Liability
Balances at June 30, 2020 (Measurement Date)	\$ 545,875
Changes for the year:	
Service cost	\$ 24,637
Interest	13,564
Effect of economic/demographic gains or losses	57,541
Changes in assumptions	(7,853)
Benefit changes	(33,745)
Net changes	\$ 54,144
Balances at June 30, 2021 (Measurement Date)	\$ 600,019

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11—Healthcare OPEB Plan: (Continued)**Component Unit - School Board (Continued)*****Sensitivity of the Total OPEB Liability to Changes in the Discount Rate***

The following amounts present the total OPEB liability of the Component Unit School Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (0.92%) or one percentage point higher (2.92%) than the current discount rate:

Rates		
1% Decrease (0.92%)	Current Discount (1.92%)	1% Increase (2.92%)
\$ 564,333	\$ 600,019	\$ 636,747

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Component Unit School Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.00% decreasing to 3.00%) or one percentage point higher (7.00% decreasing to 5.00%) than the current healthcare cost trend rates:

Rates		
1% Decrease (5.00% decreasing to 3.00%)	Healthcare Cost Trend (6.00% decreasing to 4.00%)	1% Increase (7.00% decreasing to 5.00%)
\$ 582,817	\$ 600,019	\$ 607,577

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11—Healthcare OPEB Plan: (Continued)

Component Unit - School Board (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2022, the Component Unit - School Board recognized OPEB expense in the amount of \$58,207. At June 30, 2022, the Component Unit - School Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 122,523	\$ -
Changes in assumptions	30,806	16,737
Employer contributions subsequent to the measurement date	48,137	-
Total	<u>\$ 201,466</u>	<u>\$ 16,737</u>

\$48,137 reported as deferred outflows of resources related to OPEB resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2023	\$ 20,006
2024	20,006
2025	20,006
2026	20,010
2027	22,218
Thereafter	34,346
Total	<u>\$ 136,592</u>

Additional disclosures on changes in total OPEB liability and related ratios can be found in the required supplementary information following the notes to the financial statements.

Note 12-Group Life Insurance (GLI) Plan (OPEB Plan):

Plan Description

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured plan, it is not included as part of the GLI Plan OPEB.

The specific information for GLI Plan OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,722 as of June 30, 2022.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 12-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% ($1.34\% \times 60\%$) and the employer component was 0.54% ($1.34\% \times 40\%$). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2022 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability.

Contributions to the GLI Plan from the City were \$19,599 and \$20,766 for the years ended June 30, 2022 and June 30, 2021, respectively.

Contributions to the GLI Plan from the Component Unit-School Board (Nonprofessional) were \$2,442 and \$2,130 for the years ended June 30, 2022 and June 30, 2021, respectively.

Contributions to the GLI Plan from the Component Unit-School Board (Professional) were \$29,081 and \$29,148 for the years ended June 30, 2022 and June 30, 2021, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB

At June 30, 2022, the City reported a liability of \$216,903 for its proportionate share of the Net GLI OPEB Liability.

At June 30, 2022, the Component Unit-School Board (Nonprofessional) reported a liability of \$22,237 for its proportionate share of the Net GLI OPEB Liability.

At June 30, 2022, the Component Unit-School Board (Professional) reported a liability of \$304,457 for its proportionate share of the Net GLI OPEB Liability.

The Net GLI OPEB Liability was measured as of June 30, 2021 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2020, and rolled forward to the measurement date of June 30, 2021. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2021 relative to the total of the actuarially determined employer contributions for all participating employers.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 12-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB (Continued)

At June 30, 2021, the City's proportion was 0.01860% as compared to 0.01840% at June 30, 2020.

At June 30, 2021, the Component Unit-School Board (Nonprofessional) proportion was 0.00190% as compared to 0.00210% at June 30, 2020.

At June 30, 2021, the Component Unit-School Board (Professional) proportion was 0.02620% as compared to 0.02740% at June 30, 2020.

For the year ended June 30, 2022, the City recognized GLI OPEB expense of \$3,674. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

For the year ended June 30, 2022, the Component-Unit School Board (Nonprofessional) recognized GLI OPEB expense of \$854. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

For the year ended June 30, 2022, the Component-Unit School Board (Professional) recognized GLI OPEB expense of \$5,710. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2022, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Primary Government		Component-Unit School Board (Nonprofessional)		Component-Unit School Board (Professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,739	\$ 1,653	\$ 2,536	\$ 169	\$ 34,724	\$ 2,320
Net difference between projected and actual earnings on GLI OPEB program investments	-	51,770	-	5,308	-	72,667
Change in assumptions	11,958	29,677	1,226	3,043	16,785	41,656
Changes in proportion	2,587	18,276	1,272	2,093	6,518	38,878
Employer contributions subsequent to the measurement date	19,599	-	2,442	-	29,081	-
Total	\$ 58,883	\$ 101,376	\$ 7,476	\$ 10,613	\$ 87,108	\$ 155,521

\$19,599, \$2,442, and \$29,081 reported as deferred outflows of resources related to the GLI OPEB resulting from the City's, Component-Unit School Board's (Non-professional), and Component-Unit School Board's (Professional), respectively, contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 12-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB (Continued)

<u>Year Ended June 30</u>	<u>Primary Government</u>	<u>Component Unit- School Board (Nonprofessional)</u>	<u>Component Unit- School Board (Professional)</u>
2023	\$ (15,897)	\$ (1,153)	\$ (21,762)
2024	(13,120)	(906)	(20,853)
2025	(11,903)	(895)	(19,845)
2026	(18,155)	(1,912)	(27,418)
2027	(3,017)	(713)	(7,616)
Thereafter	-	-	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2020, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021. The assumptions include several employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

Inflation	2.50%
Salary increases, including inflation:	
Teachers	3.50%-5.95%
Locality - General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 12-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 12-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 12-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 12-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2021, NOL amounts for the GLI Plan is as follows (amounts expressed in thousands):

		GLI OPEB Plan
Total GLI OPEB Liability	\$	3,577,346
Plan Fiduciary Net Position		2,413,074
GLI Net OPEB Liability (Asset)	\$	<u>1,164,272</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		67.45%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022Note 12-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)***Long-Term Expected Rate of Return***

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return*</u>
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	<u>100.00%</u>		<u>4.89%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.39%</u>

*The above allocation provides a one-year return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median rate of return of 7.11%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 12-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**Discount Rate**

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2021, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2021 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City's proportionate share of the GLI Plan Net OPEB Liability	\$ 316,904	\$ 216,903	\$ 136,148
Component Unit-School Board (Nonprofessional) proportionate share of the GLI Plan Net OPEB Liability	\$ 32,490	\$ 22,237	\$ 13,958
Component Unit-School Board (Professional) proportionate share of the GLI Plan Net OPEB Liability	\$ 444,822	\$ 304,457	\$ 191,105

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/Publications/2021-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan):

Plan Description

The Political Subdivision Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision HIC Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision HIC Plan OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The Political Subdivision Retiree HIC Plan was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and retire with at least 15 years of service credit. Eligible employees include full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. These employees are enrolled automatically upon employment.

Benefit Amounts

The Political Subdivision Retiree HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

HIC Plan Notes

The monthly HIC benefit cannot exceed the individual premium amount. There is no HIC for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2020 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Primary Government</u>	<u>Component Unit - School Board Nonprofessional</u>
Inactive members or their beneficiaries currently receiving benefits	<u>47</u>	<u>9</u>
Inactive members		
Vested inactive members	<u>1</u>	<u>1</u>
Total inactive members	<u>48</u>	<u>10</u>
Active members	<u>91</u>	<u>19</u>
Total covered employees	<u>139</u>	<u>29</u>

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. The City's contractually required employer contribution rate for the year ended June 30, 2022 was 0.57% of covered employee compensation. The Component Unit - School Board's (Nonprofessional) contractually required employer contribution rate for the year ended June 30, 2022 was 1.38% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2020. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the City to the HIC Plan were \$18,690 and \$20,085 for the years ended June 30, 2022 and June 30, 2021, respectively. Contributions from the Component Unit - School board (Nonprofessional) to the HIC Plan were \$6,241 and \$5,418 for the year ended June 30, 2022 and June 30, 2021, respectively.

During the 2020 session, House Bill 1513 was enacted. This bill required the addition of Health Insurance Credit benefits for non-teacher employees effective July 1, 2021. While benefit payments became effective July 1, 2021, employers were required to pre-fund the benefits beginning July 1, 2020. The bill impacted 95 employers and resulted in approximately \$2.5 million of additional employer contributions in FY 2021.

Net HIC OPEB Liability

The City and Component Unit-School Board's (Non-professional) net HIC OPEB liability was measured as of June 30, 2021. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2020, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2020, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

Inflation	2.50%
Salary increases, including inflation:	
Locality - General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Local Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)*****Long-Term Expected Rate of Return***

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	<u>100.00%</u>		<u>4.89%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.39%</u>

*The above allocation provides a one-year return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**Discount Rate**

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2021, the rate contributed by the entity for the HIC OPEB was 100% of the actuarially determined contribution rate. From July 1, 2021 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

Changes in Net HIC OPEB Liability - Primary Government

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2020	\$ 315,221	\$ 94,202	\$ 221,019
Changes for the year:			
Service cost	\$ 5,598	\$ -	\$ 5,598
Interest	20,442	-	20,442
Assumption changes	6,370	-	6,370
Differences between expected and actual experience	(7,664)	-	(7,664)
Contributions - employer	-	20,084	(20,084)
Net investment income	-	23,900	(23,900)
Benefit payments	(24,752)	(24,752)	-
Administrative expenses	-	(273)	273
Net changes	\$ (6)	\$ 18,959	\$ (18,965)
Balances at June 30, 2021	\$ 315,215	\$ 113,161	\$ 202,054

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)****Changes in Net HIC OPEB Liability - Component Unit-School Board (Nonprofessional)**

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2020	\$ 61,347	\$ 10,523	\$ 50,824
Changes for the year:			
Service cost	\$ 697	\$ -	\$ 697
Interest	3,990	-	3,990
Assumption changes	1,522	-	1,522
Differences between expected and actual experience	2,324	-	2,324
Contributions - employer	-	5,418	(5,418)
Net investment income	-	2,895	(2,895)
Benefit payments	(4,673)	(4,673)	-
Administrative expenses	-	(37)	37
Net changes	\$ 3,860	\$ 3,603	\$ 257
Balances at June 30, 2021	\$ 65,207	\$ 14,126	\$ 51,081

Sensitivity of the City's HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the City's HIC Program net HIC OPEB liability using the discount rate of 6.75%, as well as what the City's net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City's Net HIC OPEB Liability	\$ 232,154	\$ 202,054	\$ 176,186

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)***Sensitivity of the Component Unit-School Board's (Nonprofessional) HIC Net OPEB Liability to Changes in the Discount Rate***

The following presents the Component Unit-School Board's (Nonprofessional) HIC Plan net HIC OPEB liability using the discount rate of 6.75%, as well as what the Component Unit-School Board's (Nonprofessional) net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Component Unit-School Board (Nonprofessional)			
Net HIC OPEB Liability	\$ 56,709	\$ 51,081	\$ 46,188

HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB

For the year ended June 30, 2022, the City and Component Unit-School Board (Nonprofessional) recognized HIC Plan OPEB expense of \$16,666 and \$2,789, respectively. At June 30, 2022, the City and Component Unit-School Board (Nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to the City and Component Unit-School Board's (Nonprofessional) HIC Plan from the following sources:

	Primary Government		Component-Unit School Board (Nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,800	\$ 10,686	\$ 1,957	\$ 609
Net difference between projected and actual earnings on HIC OPEB plan investments	-	11,197	-	1,428
Change in assumptions	7,825	375	1,196	-
Employer contributions subsequent to the measurement date	18,690	-	6,241	-
Total	\$ 31,315	\$ 22,258	\$ 9,394	\$ 2,037

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 13-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)*****HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB: (Continued)***

\$18,690 and \$6,241 reported as deferred outflows of resources related to the HIC OPEB resulting from the City and Component Unit-School Board's (Nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

Year Ended June 30	Primary Government	Component Unit- School Board (Nonprofessional)
2023	\$ (1,272)	\$ 373
2024	(710)	771
2025	(3,904)	402
2026	(3,747)	(430)
2027	-	-

HIC Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Plan is available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2021-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 14-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan):***Plan Description***

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee HIC Plan. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

Note 14-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Plan Description (Continued)

Eligible Employees

The Teacher Employee Retiree HIC Plan was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Eligible employees include full-time permanent (professional) salaried employees of public school divisions covered under VRS. These employees are enrolled automatically upon employment.

Benefit Amounts

The Teacher Employee HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For Teacher and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either: \$4.00 per month, multiplied by twice the amount of service credit, or \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

HIC Plan Notes

The monthly HIC benefit cannot exceed the individual premium amount. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

Contributions

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2022 was 1.21% of covered employee compensation for employees in the VRS Teacher Employee HIC Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee HIC Plan were \$63,869 and \$64,940 for the years ended June 30, 2022 and June 30, 2021, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 14-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)*****Teacher Employee HIC Plan OPEB Liabilities, Teacher Employee HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Plan OPEB***

At June 30, 2022, the school division reported a liability of \$778,870 for its proportionate share of the VRS Teacher Employee HIC Plan Net OPEB Liability. The Net VRS Teacher Employee HIC Plan OPEB Liability was measured as of June 30, 2021 and the total VRS Teacher Employee HIC Plan OPEB liability used to calculate the Net VRS Teacher Employee HIC Plan OPEB Liability was determined by an actuarial valuation performed as of June 30, 2020 and rolled forward to the measurement date of June 30, 2021. The school division's proportion of the Net VRS Teacher Employee HIC Plan OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee HIC Plan OPEB plan for the year ended June 30, 2021 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2021, the school division's proportion of the VRS Teacher Employee HIC Plan was 0.06068% as compared to 0.06440% at June 30, 2020.

For the year ended June 30, 2022, the school division recognized VRS Teacher Employee HIC Plan OPEB expense of \$49,196. Since there was a change in proportionate share between measurement dates, a portion of the VRS Teacher Employee HIC Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2022, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee HIC Plan OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 13,591
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	10,260
Change in assumptions	21,054	3,130
Change in proportion	13,986	90,220
Employer contributions subsequent to the measurement date	<u>63,839</u>	<u>-</u>
Total	\$ <u>98,879</u>	\$ <u>117,201</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 14-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Teacher Employee HIC Plan OPEB Liabilities, Teacher Employee HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Plan OPEB (Continued)

\$63,839 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>		
2023	\$	(15,189)
2024		(15,306)
2025		(16,979)
2026		(17,238)
2027		(9,336)
Thereafter		(8,113)

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee HIC Plan was based on an actuarial valuation as of June 30, 2020, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

Inflation	2.50%
Salary increases, including inflation:	
Teacher employees	3.50%-5.95%
Investment rate of return	6.75%, net of investment expenses, including inflation

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 14-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Mortality Rates - Teachers

Pre-Retirement:

Pub-2010 Amount Weighted Teacher Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 14-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee HIC Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2021, NOL amounts for the VRS Teacher Employee HIC Plan is as follows (amounts expressed in thousands):

		Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	\$	1,477,874
Plan Fiduciary Net Position		194,305
Teacher Employee Net HIC OPEB Liability (Asset)	\$	<u>1,283,569</u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability		13.15%

The total Teacher Employee HIC OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 14-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)*****Long-Term Expected Rate of Return***

The long-term expected rate of return on the VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return*</u>
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	<u>100.00%</u>		<u>4.89%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.39%</u>

*The above allocation provides a one-year return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median rate of return of 7.11%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 14-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)***Discount Rate***

The discount rate used to measure the total Teacher Employee HIC OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2021, the rate contributed by each school division for the VRS Teacher Employee HIC Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2021 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the VRS Teacher Employee HIC Plan net HIC OPEB liability using the discount rate of 6.75%, as well as what the school division's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan			
Net HIC OPEB Liability	\$ 876,791	\$ 778,870	\$ 696,004

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee HIC Plan's Fiduciary Net Position is available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2021-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 15 - Aggregate OPEB Information:

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
City Stand-Alone Plan (Note 11)	\$ 102,310	\$ 551,272	\$ 546,889	\$ (47,403)	\$ -	\$ -	\$ -	\$ -
School Stand-Alone Plan (Note 11)	-	-	-	-	201,466	16,737	600,019	58,207
VRS OPEB Plans:								
Group Life Insurance Plan (Note 12)								
City	58,883	101,376	216,903	3,674	-	-	-	-
School Board Nonprofessional	-	-	-	-	7,476	10,613	22,237	854
School Board Professional	-	-	-	-	87,108	155,521	304,457	5,710
Health Insurance Credit Plan (Note 13)								
City	31,315	22,258	202,054	16,666	-	-	-	-
School Board Nonprofessional	-	-	-	-	9,394	2,037	51,081	2,789
Teacher Health Insurance Credit Plan (Note 14)	-	-	-	-	98,879	117,201	778,870	49,196
Totals	\$ 192,508	\$ 674,906	\$ 965,846	\$ (27,063)	\$ 404,323	\$ 302,109	\$ 1,756,664	\$ 116,756

Note 16 - Capital Assets:

Capital asset activity for the year ended June 30, 2022 was as follows:

Primary Government:

	Beginning Balance, as restated	GASB No. 87 Implementation	Increases	Decreases	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 1,967,944	\$ -	\$ -	\$ -	\$ 1,967,944
Construction in progress	3,073,045	-	405,965	(3,141,141)	337,869
Total capital assets not being depreciated	\$ 5,040,989	\$ -	\$ 405,965	\$ (3,141,141)	\$ 2,305,813
Capital assets, being depreciated:					
Buildings and improvements	\$ 30,841,750	\$ -	\$ 323,020	\$ (6,400)	\$ 31,158,370
Infrastructure	2,551,537	-	756,511	-	3,308,048
Machinery and equipment	7,811,137	-	2,082,502	(35,417)	9,858,222
Total capital assets being depreciated	\$ 41,204,424	\$ -	\$ 3,162,033	\$ (41,817)	\$ 44,324,640
Accumulated depreciation:					
Buildings and improvements	\$ (11,843,973)	\$ -	\$ (786,791)	\$ 1,731	\$ (12,629,033)
Infrastructure	(939,592)	-	(109,217)	-	(1,048,809)
Machinery and equipment	(6,422,992)	-	(415,632)	35,417	(6,803,207)
Total accumulated depreciation	\$ (19,206,557)	\$ -	\$ (1,311,640)	\$ 37,148	\$ (20,481,049)
Total capital assets being depreciated, net	\$ 21,997,867	\$ -	\$ 1,850,393	\$ (4,669)	\$ 23,843,591
Right-to-use assets, being amortized:					
Machinery and equipment	\$ -	\$ 101,014	\$ 106,217	\$ -	\$ 207,231
Accumulated amortization:					
Machinery and equipment	\$ -	\$ -	\$ (41,925)	\$ -	\$ (41,925)
Governmental activities capital assets, net	\$ 27,038,856	\$ 101,014	\$ 2,320,650	\$ (3,145,810)	\$ 26,314,710

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 16 - Capital Assets: (Continued)**

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 167,339	\$ 368,177	\$ (44,839)	\$ 490,677
Capital assets, being depreciated:				
Equipment and vehicles	\$ 2,685,090	\$ -	\$ -	\$ 2,685,090
Infrastructure	41,919,206	93,211	-	42,012,417
Total capital assets being depreciated	\$ 44,604,296	\$ 93,211	\$ -	\$ 44,697,507
Accumulated depreciation:				
Equipment and vehicles	\$ (1,154,473)	\$ (171,955)	\$ -	\$ (1,326,428)
Infrastructure	(16,898,020)	(1,071,866)	-	(17,969,886)
Total accumulated depreciation	\$ (18,052,493)	\$ (1,243,821)	\$ -	\$ (19,296,314)
Total capital assets being depreciated, net	\$ 26,551,803	\$ (1,150,610)	\$ -	\$ 25,401,193
Business-type activities capital assets, net	\$ 26,719,142	\$ (782,433)	\$ (44,839)	\$ 25,891,870

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government administration	\$ 23,702
Public safety	285,431
Public works	227,904
Health and welfare	4,426
Education	604,856
Parks, recreation, and cultural	165,321
Total depreciation/amortization expense-governmental activities	\$ 1,311,640
Business-type activities:	
Water fund	\$ 391,593
Sewer fund	622,111
Solid waste fund	230,117
Total depreciation/amortization expense-business-type activities	\$ 1,243,821
Total depreciation/amortization expense-Primary Government	\$ 2,555,461

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 16 - Capital Assets: (Continued)

Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 89,663	\$ -	\$ -	\$ 89,663
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,636,177	\$ 151,533	\$ -	\$ 3,787,710
Machinery and equipment	1,523,158	454,004	-	1,977,162
Total capital assets being depreciated	\$ 5,159,335	\$ 605,537	\$ -	\$ 5,764,872
Accumulated depreciation:				
Buildings and improvements	\$ (2,280,238)	\$ (103,467)	\$ -	\$ (2,383,705)
Machinery and equipment	(1,190,962)	(103,053)	-	(1,294,015)
Total accumulated depreciation	\$ (3,471,200)	\$ (206,520)	\$ -	\$ (3,677,720)
Total capital assets being depreciated, net	\$ 1,688,135	\$ 399,017	\$ -	\$ 2,087,152
Governmental activities capital assets, net	\$ 1,777,798	\$ 399,017	\$ -	\$ 2,176,815

Note 17 - Risk Management:

The City and its component unit - School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City and its component unit - School Board participate with other localities in a public entity risk pool for their coverage of general liability and auto insurance with the Virginia Risk Sharing Association. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The City and its component unit - School Board pay the Virginia Risk Sharing Association contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The City and its component unit - School Board continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 18 - Contingent Liabilities:

Federal programs in which the City and its component unit participate were audited in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the provisions of this guidance all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Note 19 - Landfill Closure and Post-Closure Care Cost:

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. \$7,071,363 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2022. This represents the cumulative amount based on the use of 100% of the estimated capacity of the landfill and is based on what it would cost to perform all remaining closure and post-closure care in 2022. In fiscal year 2002, the Department of Environmental Quality closed permit #178. The City's open landfill, permit #594, is comprised of a working cell that is approximately 75.59% full, including cells A, B and C. The life expectancy for cells A, B and C is 4.0 years based on an average annual disposal rate. The amount reported in the City's books is 75.59% of the total estimate, or \$5,344,946. The current year liability is based on a study performed as of that date and adjusted for inflation. Actual costs for closure and post-closure monitoring may change due to inflation, deflation, changes in technology, or changes in regulations. The City uses the Financial Assurance Mechanism to meet the Department of Environmental Quality's assurance requirements for landfill closure and post-closure costs.

The City demonstrated financial assurance requirements for closure, post-closure care, and corrective action costs through the submission of a Local Governmental Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA C20-70 of the Virginia Administrative Code.

Note 20 - Surety Bonds:

<u>Fidelity & Deposit Company of Maryland-Surety:</u>	
Allen Dressler, Interim City Manager	\$ 100,000
Theresa Harrison, City Treasurer	200,000
Cathy M. Kimberlin, Commissioner of the Revenue	3,000
All City Employees: blanket bond	100,000
All School Board Employees: blanket bond	100,000

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 21 - Deferred/Unavailable Revenue:

Deferred/unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred. Unavailable revenue is comprised of the following:

	<u>Unavailable</u>
Property taxes receivable-2nd half 2022	\$ 2,916,900
Prepaid property taxes	77,135
Total deferred revenue for governmental activities	\$ 2,994,035
Property taxes receivable due prior to June 30, 2022, not collected within 60 days	\$ 517,125
Total unavailable revenue for governmental funds	\$ <u>3,511,160</u>

Note 22 - Concentrations:

The City of Covington, Virginia relies heavily on the two businesses for tax revenue and employment of citizens. WestRock directly comprises 15.18% of the real estate tax levy, not including 83.62% of the Public Service Corporation tax levy. It also comprises 0.40% of the personal property taxes, not including 62.42% of machinery and tools tax levy, for a combined 44.78% of the total City's 2022 personal property tax levy. Virginia Ingevity Corp. directly comprises 33.86% of the machinery and tools tax levy and 21.45% of the total City's 2021 personal property tax levy.

Note 23 - Litigation:

As of June 30, 2022, there were no matters of litigation involving the City which would materially affect the City's financial position should a court decision on pending matters not be favorable.

Note 24-Adoption of Accounting Principles:

The City implemented provisions of Governmental Accounting Standards Board Statement No. 87, *Leases* during the fiscal year ended June 30, 2022. Statement No. 87, *Leases* requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Assets and liabilities have been measured as of the beginning of the period and no restatement of prior net position was necessary as a result of the implementation:

	<u>Governmental Activities</u>
Lessee Activity:	
Right-to-use equipment	\$ 101,014
Lease liabilities	(101,014)

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 25-Restatement of beginning net position:

	Net Position
	Primary
	Government
Beginning balance, July 1, 2021, as previously stated	\$ 6,758,895
Addition of capital asset related to finance purchase	208,183
Addition of finance purchase from prior period	(219,840)
Beginning balance, July 1, 2021, as restated	<u>\$ 6,747,238</u>

Note 26-Subsequent Event:

On July 1, 2022 Covington City Public Schools (CCPS) and Alleghany County Public Schools (ACPS) merged to form Alleghany Highlands Public Schools due to declining school age populations as well as to provide for additional academic offerings and operations efficiencies. The School Fund in the City of Covington accounting software will be maintained for a period after year end to allow all activity to clear the bank and any remaining cash on hand will transfer to the City. All other assets, deferred outflows and inflows of resources, liabilities, fund balance, and net position will be transferred to Alleghany Highlands Public Schools as of July 1, 2022, when the merger legally took place. Once the merger is officially recorded, a true-up will be performed to see if any additional funds are due to/from the various entities.

Note 27-Upcoming Pronouncements:

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Statement No. 99, *Omnibus 2022*, addresses (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to for fiscal years beginning after June 15, 2023.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 27-Upcoming Pronouncements: (Continued)

Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*, provides more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability for accounting changes and error corrections. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Required Supplementary Information

City of Covington, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
General property taxes	\$ 10,381,097	\$ 10,117,864	\$ 10,347,104	\$ 229,240
Other local taxes	3,669,250	3,669,250	4,362,187	692,937
Permits, privilege fees, and regulatory licenses	13,725	13,725	22,572	8,847
Fines and forfeitures	3,050	3,050	4,520	1,470
Revenue from the use of money and property	86,529	86,529	52,027	(34,502)
Charges for services	470,000	470,000	420,176	(49,824)
Miscellaneous	33,275	174,189	226,541	52,352
Recovered costs	20,000	20,000	44,868	24,868
Intergovernmental:				
Commonwealth	3,909,324	3,911,483	3,813,150	(98,333)
Federal	47,587	369,405	271,079	(98,326)
Total Revenues	<u>\$ 18,633,837</u>	<u>\$ 18,835,495</u>	<u>\$ 19,564,224</u>	<u>\$ 728,729</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,814,389	\$ 1,892,190	\$ 1,810,275	\$ 81,915
Judicial administration	318,021	318,021	310,745	7,276
Public safety	4,382,132	5,154,775	4,113,828	1,040,947
Public works	2,561,877	2,815,937	2,300,873	515,064
Health and welfare	2,639,412	2,639,412	2,057,077	582,335
Education	2,647,855	2,647,855	2,344,283	303,572
Parks, recreation, and cultural	1,672,557	1,831,721	1,782,699	49,022
Community development	259,624	315,477	313,008	2,469
Nondepartmental	393,407	313,031	218,124	94,907
Debt service:				
Principal retirement	1,444,856	1,444,856	1,539,993	(95,137)
Interest and other fiscal charges	623,517	642,036	707,440	(65,404)
Bond issuance costs	-	127,944	134,574	(6,630)
Total Expenditures	<u>\$ 18,757,647</u>	<u>\$ 20,143,255</u>	<u>\$ 17,632,919</u>	<u>\$ 2,510,336</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (123,810)</u>	<u>\$ (1,307,760)</u>	<u>\$ 1,931,305</u>	<u>\$ 3,239,065</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 462,562	\$ 1,017,562	\$ 462,498	\$ (555,064)
Transfers out	(211,000)	(320,480)	-	\$ 320,480
Payment to refund bond anticipation note	-	(2,287,686)	(2,287,686)	-
Issuance of revenue refunding bond	-	2,436,440	2,443,069	6,629
Issuance of lease liabilities	-	-	106,217	106,217
Total other financing sources (uses)	<u>\$ 251,562</u>	<u>\$ 845,836</u>	<u>\$ 724,098</u>	<u>\$ (121,738)</u>
Net change in fund balances	<u>\$ 127,752</u>	<u>\$ (461,924)</u>	<u>\$ 2,655,403</u>	<u>\$ 3,117,327</u>
Fund balances - beginning	<u>-</u>	<u>589,676</u>	<u>8,266,509</u>	<u>7,676,833</u>
Fund balances - ending	<u><u>\$ 127,752</u></u>	<u><u>\$ 127,752</u></u>	<u><u>\$ 10,921,912</u></u>	<u><u>\$ 10,794,160</u></u>

City of Covington, Virginia
 CARES Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Intergovernmental revenues:				
Federal	\$ -	\$ 258,569	\$ 122,475	\$ (136,094)
Total revenues	\$ -	\$ 258,569	\$ 122,475	\$ (136,094)
EXPENDITURES				
Current:				
General government administration	\$ -	\$ 254,167	\$ 156,222	\$ 97,945
Public safety	-	295	295	-
Public works	-	273	273	-
Health and welfare	-	3,500	3,500	-
Parks, recreation, and cultural	-	172	172	-
Total expenditures	\$ -	\$ 258,407	\$ 160,462	\$ 97,945
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 162	\$ (37,987)	\$ (38,149)
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ (162)	\$ (162)	\$ -
Net change in fund balances	\$ -	\$ -	\$ (38,149)	\$ (38,149)
Fund balances - beginning	\$ -	\$ -	\$ 56,939	\$ 56,939
Fund balances - ending	\$ -	\$ -	\$ 18,790	\$ 18,790

City of Covington, Virginia
 ARPA Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Intergovernmental revenues:				
Federal	\$ -	\$ 3,509,382	\$ 106,625	\$ (3,402,757)
Total revenues	\$ -	\$ 3,509,382	\$ 106,625	\$ (3,402,757)
EXPENDITURES				
Current:				
General government administration	\$ -	\$ 3,410,730	\$ 7,973	\$ 3,402,757
Public works	-	83,652	83,652	-
Community development	-	15,000	15,000	-
Total expenditures	\$ -	\$ 3,509,382	\$ 106,625	\$ 3,402,757
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

City of Covington, Virginia
Schedule of Changes in Net Pension Liability and Related Ratios
Primary Government
Pension Plans
For the Measurement Dates of June 30, 2014 through June 30, 2021

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service cost	\$ 405,216	\$ 390,965	\$ 401,154	\$ 386,694	\$ 388,395	\$ 384,532	\$ 381,110	\$ 364,378
Interest	1,722,906	1,701,318	1,695,769	1,667,681	1,659,955	1,624,606	1,592,529	1,553,775
Differences between expected and actual experience	(714,113)	(268,603)	(201,736)	61,596	(272,688)	(272,328)	(248,359)	-
Changes of assumptions	992,821	-	671,408	-	(145,142)	-	-	-
Benefit payments	(1,480,613)	(1,527,110)	(1,647,193)	(1,782,249)	(1,258,039)	(1,205,609)	(1,328,466)	(1,400,603)
Net change in total pension liability	\$ 926,217	\$ 296,570	\$ 919,402	\$ 333,722	\$ 372,481	\$ 531,201	\$ 396,814	\$ 517,550
Total pension liability - beginning	26,264,834	25,968,264	25,048,862	24,715,140	24,342,659	23,811,458	23,414,644	22,897,094
Total pension liability - ending (a)	\$ 27,191,051	\$ 26,264,834	\$ 25,968,264	\$ 25,048,862	\$ 24,715,140	\$ 24,342,659	\$ 23,811,458	\$ 23,414,644
Plan fiduciary net position								
Contributions - employer	\$ 538,960	\$ 492,493	\$ 497,259	\$ 506,756	\$ 508,232	\$ 624,975	\$ 600,630	\$ 548,162
Contributions - employee	179,784	178,109	180,212	181,061	184,142	183,862	177,538	175,244
Net investment income	5,475,140	392,439	1,325,010	1,459,431	2,220,416	317,657	823,292	2,543,910
Benefit payments	(1,480,613)	(1,527,110)	(1,647,193)	(1,782,249)	(1,258,039)	(1,205,609)	(1,328,466)	(1,400,603)
Administrator charges	(13,993)	(13,873)	(13,893)	(13,221)	(13,102)	(11,660)	(11,662)	(14,164)
Other	512	(458)	(830)	(1,269)	(1,964)	(135)	(171)	134
Net change in plan fiduciary net position	\$ 4,699,790	\$ (478,400)	\$ 340,565	\$ 350,509	\$ 1,639,685	\$ (90,910)	\$ 261,161	\$ 1,852,683
Plan fiduciary net position - beginning	20,308,745	20,787,145	20,446,580	20,096,071	18,456,386	18,547,296	18,286,135	16,433,452
Plan fiduciary net position - ending (b)	\$ 25,008,535	\$ 20,308,745	\$ 20,787,145	\$ 20,446,580	\$ 20,096,071	\$ 18,456,386	\$ 18,547,296	\$ 18,286,135
City's net pension liability - ending (a) - (b)	\$ 2,182,516	\$ 5,956,089	\$ 5,181,119	\$ 4,602,282	\$ 4,619,069	\$ 5,886,273	\$ 5,264,162	\$ 5,128,509
Plan fiduciary net position as a percentage of the total pension liability	91.97%	77.32%	80.05%	81.63%	81.31%	75.82%	77.89%	78.10%
Covered payroll	\$ 3,841,633	\$ 3,787,491	\$ 3,794,890	\$ 3,767,567	\$ 3,756,414	\$ 3,712,605	\$ 3,552,497	\$ 3,463,949
City's net pension liability as a percentage of covered payroll	56.81%	157.26%	136.53%	122.16%	122.96%	158.55%	148.18%	148.05%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia

Schedule of Changes in Net Pension Liability and Related Ratios

Component Unit School Board (nonprofessional)

Pension Plans

For the Measurement Dates of June 30, 2014 through June 30, 2021

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service cost	\$ 39,153	\$ 42,570	\$ 35,988	\$ 40,730	\$ 45,396	\$ 56,372	\$ 62,270	\$ 58,304
Interest	209,560	200,759	193,583	194,875	203,784	199,107	195,457	191,627
Differences between expected and actual experience	585	60,976	81,708	(79,990)	(185,027)	5,132	(2,890)	-
Changes of assumptions	95,388	-	70,671	-	(8,346)	-	-	-
Benefit payments	(173,208)	(174,640)	(171,777)	(176,394)	(189,746)	(197,840)	(207,569)	(182,868)
Net change in total pension liability	\$ 171,478	\$ 129,665	\$ 210,173	\$ (20,779)	\$ (133,939)	\$ 62,771	\$ 47,268	\$ 67,063
Total pension liability - beginning	3,191,191	3,061,526	2,851,353	2,872,132	3,006,071	2,943,300	2,896,032	2,828,969
Total pension liability - ending (a)	\$ 3,362,669	\$ 3,191,191	\$ 3,061,526	\$ 2,851,353	\$ 2,872,132	\$ 3,006,071	\$ 2,943,300	\$ 2,896,032
Plan fiduciary net position								
Contributions - employer	\$ 60,341	\$ 66,489	\$ 63,262	\$ 57,411	\$ 61,643	\$ 58,524	\$ 76,341	\$ 91,712
Contributions - employee	18,726	20,141	19,065	17,692	19,124	18,057	23,812	26,021
Net investment income	646,836	46,258	155,604	168,648	257,051	35,959	101,524	312,953
Benefit payments	(173,208)	(174,640)	(171,777)	(176,394)	(189,746)	(197,840)	(207,569)	(182,868)
Administrator charges	(1,657)	(1,624)	(1,600)	(1,512)	(1,557)	(1,449)	(1,474)	(1,725)
Other	61	(54)	(98)	(148)	(226)	(16)	(19)	17
Net change in plan fiduciary net position	\$ 551,099	\$ (43,430)	\$ 64,456	\$ 65,697	\$ 146,289	\$ (86,765)	\$ (7,385)	\$ 246,110
Plan fiduciary net position - beginning	2,400,495	2,443,925	2,379,469	2,313,772	2,167,483	2,254,248	2,261,633	2,015,523
Plan fiduciary net position - ending (b)	\$ 2,951,594	\$ 2,400,495	\$ 2,443,925	\$ 2,379,469	\$ 2,313,772	\$ 2,167,483	\$ 2,254,248	\$ 2,261,633
School Division's net pension liability - ending (a) - (b)	\$ 411,075	\$ 790,696	\$ 617,601	\$ 471,884	\$ 558,360	\$ 838,588	\$ 689,052	\$ 634,399
Plan fiduciary net position as a percentage of the total pension liability	87.78%	75.22%	79.83%	83.45%	80.56%	72.10%	76.59%	78.09%
Covered payroll	\$ 392,573	\$ 426,269	\$ 404,575	\$ 367,065	\$ 392,295	\$ 366,880	\$ 476,240	\$ 511,831
School Division's net pension liability as a percentage of covered payroll	104.71%	185.49%	152.65%	128.56%	142.33%	228.57%	144.69%	123.95%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan
Pension Plans
For the Measurement Dates of June 30, 2014 through June 30, 2021

Date (1)	Employer's Proportion of the Net Pension Liability (Asset) (2)	Employer's Proportionate Share of the Net Pension Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (6)
2021	0.06142%	\$ 4,768,094	\$ 5,366,917	88.84%	85.46%
2020	0.06520%	9,491,223	5,641,333	168.24%	71.47%
2019	0.06603%	8,689,923	5,469,846	158.87%	73.51%
2018	0.06825%	8,026,000	5,464,358	146.88%	74.81%
2017	0.07184%	8,835,000	5,629,861	156.93%	72.92%
2016	0.06817%	8,553,000	5,196,952	164.58%	68.28%
2015	0.06588%	8,292,000	4,891,913	169.50%	70.68%
2014	0.07007%	8,468,000	5,125,379	165.22%	70.88%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Employer Contributions
Pension Plans

For the Years Ended June 30, 2013 through June 30, 2022

Date	Contractually Required Contribution (1)*	Contributions in Relation to Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2022	\$ 506,769	\$ 506,769	\$ -	\$ 3,649,418	13.89%
2021	538,960	538,960	-	3,841,633	14.03%
2020	492,493	492,493	-	3,787,491	13.00%
2019	497,259	497,259	-	3,794,890	13.10%
2018	506,756	506,756	-	3,767,567	13.45%
2017	518,385	518,385	-	3,756,414	13.80%
2016	624,974	624,974	-	3,712,605	16.83%
2015	600,630	600,630	-	3,552,497	16.91%
2014	548,343	548,343	-	3,463,949	15.83%
2013	561,286	561,286	-	3,545,708	15.83%
Component Unit School Board (nonprofessional)					
2022	\$ 69,367	\$ 69,367	\$ -	\$ 452,256	15.34%
2021	60,341	60,341	-	392,573	15.37%
2020	68,374	68,374	-	426,269	16.04%
2019	63,262	63,262	-	404,575	15.64%
2018	59,896	59,896	-	367,065	16.32%
2017	61,747	61,747	-	392,295	15.74%
2016	58,731	58,731	-	366,880	16.01%
2015	76,341	76,341	-	476,240	16.03%
2014	80,357	80,357	-	511,831	15.70%
2013	76,359	76,359	-	486,362	15.70%
Component Unit School Board (professional)					
2022	\$ 876,103	\$ 876,103	\$ -	\$ 5,380,603	16.28%
2021	868,920	868,920	-	5,366,917	16.19%
2020	866,676	866,676	-	5,641,333	15.36%
2019	846,000	846,000	-	5,469,846	15.47%
2018	976,000	976,000	-	5,464,358	17.86%
2017	820,000	820,000	-	5,629,861	14.57%
2016	721,000	721,000	-	5,196,952	13.87%
2015	710,000	710,000	-	4,891,913	14.51%
2014	597,619	597,619	-	5,125,377	11.66%
2013	598,100	598,100	-	5,129,503	11.66%

*Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

City of Covington, Virginia
Notes to Required Supplementary Information
Pension Plans
For the Year Ended June 30, 2022

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Component Unit School Board - Professional Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

City of Covington, Virginia
Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
Primary Government
For the Measurement Dates of June 30, 2017 through June 30, 2021

	2021	2020	2019	2018	2017
Total OPEB liability					
Service cost	\$ 25,104	\$ 21,804	\$ 46,574	\$ 40,948	\$ 46,022
Interest	16,177	19,370	46,785	39,837	31,712
Changes in assumptions	(28,472)	26,767	(459,792)	(5,351)	(52,691)
Differences between expected and actual experience	(87,557)	-	(235,354)	138,106	-
Benefit payments	(27,082)	(32,524)	(61,456)	(30,146)	(35,555)
Net change in total OPEB liability	\$ (101,830)	\$ 35,417	\$ (663,243)	\$ 183,394	\$ (10,512)
Total OPEB liability - beginning	648,719	613,302	1,276,545	1,093,151	1,103,663
Total OPEB liability - ending	\$ 546,889	\$ 648,719	\$ 613,302	\$ 1,276,545	\$ 1,093,151
 Covered payroll	 \$ 3,803,626	 \$ 3,877,716	 \$ 3,605,268	 \$ 3,958,074	 \$ 3,909,193
 City's total OPEB liability (asset) as a percentage of covered payroll	 14.38%	 16.73%	 17.01%	 32.25%	 27.96%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

City of Covington, Virginia
Notes to Required Supplementary Information - City OPEB
For the Year Ended June 30, 2022

Valuation Date: 6/30/2021
Measurement Date: 6/30/2021

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Individual Entry Age Normal, with Normal Cost determined as a percent of pay
Discount Rate	1.92% at June 30, 2021
Inflation	2.50%
Healthcare Trend Rate	6.00% in 2022, decreasing 0.25% per year to ultimate rate of 4.00%
Salary Increase Rates	4.00%
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates are based on the Pub-2010 Healthy Lives (separate tables for pre- and post- retirement and for males and females), projected to change from 2010 by the MP-2021 Scale.

City of Covington, Virginia
Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
Component Unit School Board
For the Measurement Dates of June 30, 2017 through June 30, 2021

	2021	2020	2019	2018	2017
Total OPEB liability					
Service cost	\$ 24,637	\$ 21,583	\$ 14,786	\$ 13,817	\$ 15,642
Interest	13,564	15,732	14,656	13,891	13,504
Effect of Economic/Demographic Gains or Losses	57,541	-	94,796	14,718	-
Changes in assumptions	(7,853)	22,857	19,545	(1,657)	(19,886)
Plan changes	-	-	-	-	(68,275)
Benefit payments	(33,745)	(33,812)	(28,710)	(25,398)	(28,585)
Administrative expenses	-	-	1	-	-
Net change in total OPEB liability	\$ 54,144	\$ 26,360	\$ 115,074	\$ 15,371	\$ (87,600)
Total OPEB liability - beginning	545,875	519,515	404,441	389,070	476,670
Total OPEB liability - ending	\$ 600,019	\$ 545,875	\$ 519,515	\$ 404,441	\$ 389,070
 Covered payroll	 \$ 5,775,313	 \$ 6,150,055	 \$ 5,913,514	 \$ 5,656,342	 \$ 5,656,342
 Component Unit School Board's total OPEB liability (asset) as a percentage of covered payroll	 10.39%	 8.88%	 8.79%	 7.15%	 6.88%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

City of Covington, Virginia
Notes to Required Supplementary Information - Component Unit School Board OPEB
For the Year Ended June 30, 2022

Valuation Date: 6/30/2021
Measurement Date: 6/30/2021

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Individual Entry Age Normal, with Normal Cost determined as a percent of pay
Discount Rate	1.92% at June 30, 2021
Inflation	2.50%
Healthcare Trend Rate	6.00% in 2021-22, decreasing 0.25% per year to ultimate rate of 4.00%
Salary Increase Rates	4.00%
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates are based on the Pub-2010 Healthy Lives (separate tables for pre- and post- retirement and for males and females), projected to change from 2010 by the MP-2021 Scale.

City of Covington, Virginia
Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance (GLI) Plan
For the Measurement Dates of June 30, 2016 through June 30, 2021

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
Primary Government					
2021	0.01860%	\$ 216,903	\$ 3,845,525	5.64%	67.45%
2020	0.01840%	307,400	3,790,256	8.11%	52.64%
2019	0.01936%	315,039	3,794,890	8.30%	52.00%
2018	0.01990%	303,000	3,784,442	8.01%	51.22%
2017	0.02038%	307,000	3,758,508	8.17%	48.86%
2016	0.02066%	361,000	3,712,605	9.72%	48.86%
Component Unit School Board (nonprofessional)					
2021	0.00190%	\$ 22,237	\$ 394,531	5.64%	67.45%
2020	0.00210%	34,712	428,464	8.10%	52.64%
2019	0.00207%	33,684	404,575	8.33%	52.00%
2018	0.00193%	29,000	367,065	7.90%	51.22%
2017	0.00214%	32,000	394,617	8.11%	48.86%
2016	0.00221%	39,000	397,683	9.81%	48.86%
Component Unit School Board (professional)					
2021	0.02620%	\$ 304,457	\$ 5,397,813	5.64%	67.45%
2020	0.02740%	457,762	5,644,818	8.11%	52.64%
2019	0.02792%	454,333	5,473,771	8.30%	52.00%
2018	0.02876%	436,000	5,469,192	7.97%	51.22%
2017	0.03054%	460,000	5,633,192	8.17%	51.22%
2016	0.02892%	506,000	5,197,408	9.74%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2016 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Employer Contributions
Group Life Insurance (GLI) Plan
For the Years Ended June 30, 2013 through June 30, 2022

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2022	\$ 19,599	\$ 19,599	\$ -	\$ 3,629,499	0.54%
2021	20,766	20,766	-	3,845,525	0.54%
2020	19,712	19,712	-	3,790,256	0.52%
2019	19,734	19,734	-	3,794,890	0.52%
2018	19,680	19,680	-	3,784,442	0.52%
2017	19,544	19,544	-	3,758,508	0.52%
2016	17,821	17,821	-	3,712,605	0.48%
2015	17,052	17,052	-	3,552,497	0.48%
2014	16,627	16,627	-	3,463,949	0.48%
2013	17,019	17,019	-	3,545,708	0.48%
Component Unit School Board (nonprofessional)					
2022	\$ 2,442	\$ 2,442	\$ -	\$ 452,256	0.54%
2021	2,130	2,130	-	394,531	0.54%
2020	2,228	2,228	-	428,464	0.52%
2019	2,000	2,000	-	404,575	0.49%
2018	2,000	2,000	-	367,065	0.54%
2017	2,000	2,000	-	394,617	0.51%
2016	1,909	1,909	-	397,683	0.48%
2015	2,295	2,295	-	478,088	0.48%
2014	2,457	2,457	-	511,831	0.48%
2013	2,343	2,343	-	488,200	0.48%
Component Unit School Board (professional)					
2022	\$ 29,081	\$ 29,081	\$ -	\$ 5,385,514	0.54%
2021	29,148	29,148	-	5,397,813	0.54%
2020	29,353	29,353	-	5,644,818	0.52%
2019	28,000	28,000	-	5,473,771	0.51%
2018	32,000	32,000	-	5,469,192	0.59%
2017	29,000	29,000	-	5,633,192	0.51%
2016	24,948	24,948	-	5,197,408	0.48%
2015	23,511	23,511	-	4,898,194	0.48%
2014	24,596	24,596	-	5,124,136	0.48%
2013	24,414	24,414	-	5,086,179	0.48%

City of Covington, Virginia
Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2022

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

City of Covington, Virginia
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
Primary Government
Health Insurance Credit (HIC) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2021

	2021	2020	2019	2018	2017
Total HIC OPEB Liability					
Service cost	\$ 5,598	\$ 5,375	\$ 4,949	\$ 4,696	\$ 4,000
Interest	20,442	20,919	20,466	20,523	21,000
Differences between expected and actual experience	(7,664)	(7,509)	11,658	(879)	-
Changes of assumptions	6,370	-	6,786	-	(9,000)
Benefit payments	(24,752)	(26,958)	(25,663)	(24,663)	(20,000)
Other changes	-	-	-	(479)	1,000
Net change in total HIC OPEB liability	\$ (6)	\$ (8,173)	\$ 18,196	\$ (802)	\$ (3,000)
Total HIC OPEB Liability - beginning	315,221	323,394	305,198	306,000	309,000
Total HIC OPEB Liability - ending (a)	\$ 315,215	\$ 315,221	\$ 323,394	\$ 305,198	\$ 306,000
Plan fiduciary net position					
Contributions - employer	\$ 20,084	\$ 17,401	\$ 17,440	\$ 17,319	\$ 17,000
Net investment income	23,900	1,974	6,328	7,271	11,000
Benefit payments	(24,752)	(26,958)	(25,663)	(24,663)	(20,000)
Administrator charges	(273)	(179)	(135)	(164)	
Rounding	-	-	-	(196)	
Other	-	-	(8)	(565)	1,000
Net change in plan fiduciary net position	\$ 18,959	\$ (7,762)	\$ (2,038)	\$ (998)	\$ 9,000
Plan fiduciary net position - beginning	94,202	101,964	104,002	105,000	96,000
Plan fiduciary net position - ending (b)	\$ 113,161	\$ 94,202	\$ 101,964	\$ 104,002	\$ 105,000
City's net HIC OPEB liability - ending (a) - (b)	\$ 202,054	\$ 221,019	\$ 221,430	\$ 201,196	\$ 201,000
Plan fiduciary net position as a percentage of the total HIC OPEB liability	35.90%	29.88%	31.53%	34.08%	34.31%
Covered payroll	\$ 3,523,595	\$ 3,480,076	\$ 3,487,954	\$ 3,463,554	\$ 3,466,331
City's net HIC OPEB liability as a percentage of covered payroll	5.73%	6.35%	6.35%	5.81%	5.80%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
Component Unit School Board (nonprofessional)
Health Insurance Credit (HIC) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2021

	2021	2020	2019	2018	2017
Total HIC OPEB Liability					
Service cost	\$ 697	\$ 707	\$ 605	\$ 1,000	\$ 1,000
Interest	3,990	3,606	4,188	4,000	4,000
Changes of benefit terms	-	5,398	-	-	-
Differences between expected and actual experience	2,324	647	(7,650)	1,000	-
Changes of assumptions	1,522	-	1,053	-	-
Benefit payments	(4,673)	(4,664)	(4,543)	(5,000)	(5,000)
Other	-	-	-	-	(1,000)
Net change in total HIC OPEB liability	\$ 3,860	\$ 5,694	\$ (6,347)	\$ 1,000	\$ (1,000)
Total HIC OPEB Liability - beginning	61,347	55,653	62,000	61,000	62,000
Total HIC OPEB Liability - ending (a)	\$ 65,207	\$ 61,347	\$ 55,653	\$ 62,000	\$ 61,000
Plan fiduciary net position					
Contributions - employer	\$ 5,418	\$ 5,541	\$ 5,260	\$ 3,000	\$ 3,000
Net investment income	2,895	196	576	1,000	1,000
Benefit payments	(4,673)	(4,664)	(4,543)	(5,000)	(5,000)
Administrator charges	(37)	(20)	(13)	-	-
Other	-	-	190	(1,000)	-
Net change in plan fiduciary net position	\$ 3,603	\$ 1,053	\$ 1,470	\$ (2,000)	\$ (1,000)
Plan fiduciary net position - beginning	10,523	9,470	8,000	10,000	11,000
Plan fiduciary net position - ending (b)	\$ 14,126	\$ 10,523	\$ 9,470	\$ 8,000	\$ 10,000
School's net HIC OPEB liability - ending (a) - (b)	\$ 51,081	\$ 50,824	\$ 46,183	\$ 54,000	\$ 51,000
Plan fiduciary net position as a percentage of the total HIC OPEB liability	21.66%	17.15%	17.02%	12.90%	16.39%
Covered payroll	\$ 392,573	\$ 426,269	\$ 404,575	\$ 367,065	\$ 392,295
School's net HIC OPEB liability as a percentage of covered payroll	13.01%	11.92%	11.42%	14.71%	13.00%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Employer Contributions
Health Insurance Credit (HIC) Plan
For the Years Ended June 30, 2013 through June 30, 2022

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2022	\$ 18,690	\$ 18,690	\$ -	\$ 3,278,951	0.57%
2021	20,085	20,085	-	3,523,595	0.57%
2020	17,401	17,401	-	3,480,076	0.50%
2019	17,440	17,440	-	3,487,954	0.50%
2018	17,319	17,319	-	3,463,554	0.50%
2017	17,332	17,332	-	3,466,331	0.50%
2016	17,591	17,591	-	3,449,201	0.51%
2015	16,908	16,908	-	3,315,206	0.51%
2014	16,045	16,045	-	3,208,907	0.50%
2013	17,729	17,729	-	3,545,707	0.50%
Component Unit School Board (nonprofessional)					
2022	\$ 6,241	\$ 6,241	\$ -	\$ 452,256	1.38%
2021	5,418	5,418	-	392,573	1.38%
2020	5,541	5,541	-	426,269	1.30%
2019	5,000	5,000	-	404,575	1.24%
2018	3,000	3,000	-	367,065	0.82%
2017	3,000	3,000	-	392,295	0.76%
2016	2,642	2,642	-	366,880	0.72%
2015	3,429	3,429	-	476,240	0.72%
2014	4,197	4,197	-	511,831	0.82%
2013	4,025	4,025	-	490,889	0.82%

City of Covington, Virginia
Notes to Required Supplementary Information
Health Insurance Credit (HIC) Plan
For the Year Ended June 30, 2022

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Local Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

City of Covington, Virginia
Schedule of School Board's Share of Net OPEB Liability
Teacher Employee Health Insurance Credit (HIC) Plan
For the Measurement Dates of June 30, 2016 through June 30, 2021

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2021	0.06068% \$	778,870 \$	5,366,917	14.51%	13.15%
2020	0.06440%	839,456	5,641,333	14.88%	9.95%
2019	0.06521%	853,662	5,469,846	15.61%	8.97%
2018	0.67510%	858,000	5,459,639	15.72%	8.08%
2017	0.07134%	905,000	5,629,860	16.08%	7.04%
2016	0.06816%	865,000	5,197,408	16.64%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2016 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Employer Contributions
Teacher Employee Health Insurance Credit (HIC) Plan
For the Years Ended June 30, 2013 through June 30, 2022

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2022	\$ 63,839	\$ 63,839	\$ -	\$ 5,275,914	1.21%
2021	64,940	64,940	-	5,366,917	1.21%
2020	67,696	67,696	-	5,641,333	1.20%
2019	66,000	66,000	-	5,469,846	1.21%
2018	74,000	74,000	-	5,459,639	1.36%
2017	62,000	62,000	-	5,629,860	1.10%
2016	55,093	55,093	-	5,197,408	1.06%
2015	51,921	51,921	-	4,898,194	1.06%
2014	56,878	56,878	-	5,124,136	1.11%
2013	55,698	55,698	-	2,017,848	2.76%

City of Covington, Virginia
Notes to Required Supplementary Information
Teacher Employee Health Insurance Credit (HIC) Plan
For the Year Ended June 30, 2022

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

Other Supplementary Information

City of Covington, Virginia
City Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
EXPENDITURES				
Capital projects	\$ -	\$ 3,172,333	\$ 29,368	\$ 3,142,965
Debt service:				
Bond issuance costs	-	50,500	47,358	3,142
Total expenditures	\$ -	\$ 3,222,833	\$ 76,726	\$ 3,146,107
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (3,222,833)	\$ (76,726)	\$ 3,146,107
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation bond	\$ -	\$ 3,000,000	\$ 68,236	\$ (2,931,764)
Total other financing sources (uses)	\$ -	\$ 3,000,000	\$ 68,236	\$ (2,931,764)
Net change in fund balances	\$ -	\$ (222,833)	\$ (8,490)	\$ 214,343
Fund balances - beginning	-	222,833	222,833	-
Fund balances - ending	\$ -	\$ -	\$ 214,343	\$ 214,343

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

MAJOR GOVERNMENTAL FUNDS

School Operating Fund - The School Operating Fund accounts for and reports the operations of the City's school system. Financing is provided by the State and Federal governments as well as contributions from the City's General Fund.

School Cafeteria Fund - The School Cafeteria Fund accounts for and reports the operations related to cafeteria.

School Activity Fund - The School Activity Fund accounts for and reports the operations of the individual schools.

City of Covington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2022

	School Operating Fund	School Cafeteria Fund	School Activity Fund	Total School Fund
ASSETS				
Cash and cash equivalents	\$ 494,778	\$ -	\$ -	\$ 494,778
Cash held at schools	-	-	112,026	112,026
Receivables:				
Accounts receivable	2,567	-	-	2,567
Due from other governmental units	526,467	18,354	-	544,821
Total assets	<u>\$ 1,023,812</u>	<u>\$ 18,354</u>	<u>\$ 112,026</u>	<u>\$ 1,154,192</u>
LIABILITIES				
Accounts payable	\$ 153,761	\$ -	\$ -	\$ 153,761
Accrued liabilities	495,823	-	-	495,823
Due to primary government	374,228	18,354	-	392,582
Total liabilities	<u>\$ 1,023,812</u>	<u>\$ 18,354</u>	<u>\$ -</u>	<u>\$ 1,042,166</u>
FUND BALANCES				
Restricted:				
School activity fund	\$ -	\$ -	\$ 112,026	\$ 112,026
Total fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,026</u>	<u>\$ 112,026</u>
Total liabilities and fund balances	<u>\$ 1,023,812</u>	<u>\$ 18,354</u>	<u>\$ 112,026</u>	<u>\$ 1,154,192</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:				
Total fund balances per above				\$ 112,026
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Land			\$ 89,663	
Buildings and improvements			1,404,005	
Machinery and equipment			<u>683,147</u>	2,176,815
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.				
Pension related items			\$ 1,876,695	
OPEB related items			<u>404,323</u>	2,281,018
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				
Finance purchases			\$ (60,050)	
Compensated absences			(323,913)	
Accrued interest payable			(1,179)	
Net pension liability			(5,179,169)	
Net OPEB liabilities			<u>(1,756,664)</u>	(7,320,975)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.				
Pension related items			\$ (4,462,582)	
OPEB related items			<u>(302,109)</u>	(4,764,691)
Net position of governmental activities				<u>\$ (7,515,807)</u>

City of Covington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2022

	School Operating Fund	School Cafeteria Fund	School Activity Fund*	Total School Fund
REVENUES				
Revenue from the use of money and property	\$ 300	\$ -	\$ -	\$ 300
Charges for services	-	188	107,826	108,014
Miscellaneous	185,645	-	-	185,645
Recovered costs	20,996	-	-	20,996
Intergovernmental:				
Local government	2,425,613	-	-	2,425,613
Commonwealth	7,739,607	2,725	-	7,742,332
Federal	1,629,026	573,711	-	2,202,737
Total revenues	<u>\$ 12,001,187</u>	<u>\$ 576,624</u>	<u>\$ 107,826</u>	<u>\$ 12,685,637</u>
EXPENDITURES				
Current:				
Education	\$ 11,934,419	\$ 612,802	\$ 212,595	\$ 12,759,816
Debt service:				
Principal retirement	37,253	-	-	37,253
Interest and other fiscal charges	3,039	-	-	3,039
Total expenditures	<u>\$ 11,974,711</u>	<u>\$ 612,802</u>	<u>\$ 212,595</u>	<u>\$ 12,800,108</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 26,476</u>	<u>\$ (36,178)</u>	<u>\$ (104,769)</u>	<u>\$ (114,471)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 95,183	\$ 95,183
Transfers out	(95,183)	-	-	(95,183)
Total other financing sources (uses)	<u>\$ (95,183)</u>	<u>\$ -</u>	<u>\$ 95,183</u>	<u>\$ -</u>
Net change in fund balances	\$ (68,707)	\$ (36,178)	\$ (9,586)	\$ (114,471)
Fund balances - beginning	<u>68,707</u>	<u>36,178</u>	<u>121,612</u>	<u>226,497</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,026</u>	<u>\$ 112,026</u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:				
Net change in fund balances - total governmental funds - per above				\$ (114,471)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.				
Capital asset additions			\$ 605,537	
Depreciation/amortization expense			<u>(206,520)</u>	399,017
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related				
Principal payments on finance purchases				37,253
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.				
Compensated absences			\$ 93,600	
Change in pension related items			999,359	
Change in OPEB related items			33,168	
Accrued interest payable			<u>755</u>	<u>1,126,882</u>
Change in net position of governmental activities				<u>\$ 1,448,681</u>

*The School Activity Fund does not require a legally adopted budget.

City of Covington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2022

	School Operating Fund				School Cafeteria Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Revenue from the use of money and property	\$ 500	\$ 500	\$ 300	\$ (200)	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	38,000	38,000	188	(37,812)
Miscellaneous	65,352	65,352	185,645	120,293	-	-	-	-
Recovered costs	38,375	38,375	20,996	(17,379)	-	-	-	-
Intergovernmental:								
Local government	2,644,872	2,644,872	2,425,613	(219,259)	-	-	-	-
Commonwealth	7,794,632	7,794,632	7,739,607	(55,025)	10,265	10,265	2,725	(7,540)
Federal	673,013	2,463,881	1,629,026	(834,855)	320,000	326,762	573,711	246,949
Total revenues	\$ 11,216,744	\$ 13,007,612	\$ 12,001,187	\$ (1,006,425)	\$ 368,265	\$ 375,027	\$ 576,624	\$ 201,597
EXPENDITURES								
Current:								
Education	\$ 11,080,166	\$ 12,871,034	\$ 11,934,419	\$ 936,615	\$ 504,843	\$ 511,605	\$ 612,802	\$ (101,197)
Debt service:								
Principal retirement	-	-	37,253	(37,253)	-	-	-	-
Interest and other fiscal charges	-	-	3,039	(3,039)	-	-	-	-
Total expenditures	\$ 11,080,166	\$ 12,871,034	\$ 11,974,711	\$ 896,323	\$ 504,843	\$ 511,605	\$ 612,802	\$ (101,197)
Excess (deficiency) of revenues over (under) expenditures	\$ 136,578	\$ 136,578	\$ 26,476	\$ (110,102)	\$ (136,578)	\$ (136,578)	\$ (36,178)	\$ 100,400
OTHER FINANCING SOURCES (USES)								
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 136,578	\$ 136,578	\$ -	\$ (136,578)
Transfers out	(136,578)	(136,578)	(95,183)	41,395	-	-	-	-
Total other financing sources (uses)	\$ (136,578)	\$ (136,578)	\$ (95,183)	\$ 41,395	\$ 136,578	\$ 136,578	\$ -	\$ (136,578)
Net change in fund balances	\$ -	\$ -	\$ (68,707)	\$ (68,707)	\$ -	\$ -	\$ (36,178)	\$ (36,178)
Fund balances - beginning	-	-	68,707	68,707	-	-	36,178	36,178
Fund balances - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Supporting Schedules

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,419,632	\$ 2,419,632	\$ 2,560,957	\$ 141,325
Real and personal public service corporation taxes	1,935,165	1,935,165	2,143,100	207,935
Personal property taxes	1,850,000	1,850,000	1,625,901	(224,099)
Mobile home taxes	6,300	6,300	7,025	725
Machinery and tools taxes	4,100,000	3,836,767	3,858,123	21,356
Penalties	30,000	30,000	76,896	46,896
Interest and fees	40,000	40,000	75,102	35,102
Total general property taxes	<u>\$ 10,381,097</u>	<u>\$ 10,117,864</u>	<u>\$ 10,347,104</u>	<u>\$ 229,240</u>
Other local taxes:				
Local sales and use taxes	\$ 1,360,000	\$ 1,360,000	\$ 1,657,290	\$ 297,290
Consumers' utility taxes	380,000	380,000	383,985	3,985
Consumption taxes	21,000	21,000	22,953	1,953
Business license taxes	460,000	460,000	619,910	159,910
Motor vehicle licenses	177,250	177,250	206,689	29,439
Bank stock taxes	235,000	235,000	243,115	8,115
Recordation tax	10,000	10,000	43,078	33,078
Hotel and motel room taxes	32,000	32,000	38,254	6,254
Restaurant food taxes	900,000	900,000	1,051,053	151,053
Tobacco taxes	94,000	94,000	95,860	1,860
Total other local taxes	<u>\$ 3,669,250</u>	<u>\$ 3,669,250</u>	<u>\$ 4,362,187</u>	<u>\$ 692,937</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 400	\$ 400	\$ 3,098	\$ 2,698
Land use fees	50	50	25	(25)
Zoning and subdivision permits	100	100	150	50
Building permits	12,550	12,550	18,443	5,893
Other permits and licenses	625	625	856	231
Total permits, privilege fees, and regulatory licenses	<u>\$ 13,725</u>	<u>\$ 13,725</u>	<u>\$ 22,572</u>	<u>\$ 8,847</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 3,050	\$ 3,050	\$ 4,520	\$ 1,470
Revenue from use of money and property:				
Revenue from use of money	\$ 64,000	\$ 64,000	\$ 27,851	\$ (36,149)
Revenue from use of property	22,529	22,529	24,176	1,647
Total revenue from use of money and property	<u>\$ 86,529</u>	<u>\$ 86,529</u>	<u>\$ 52,027</u>	<u>\$ (34,502)</u>
Charges for services:				
Charges for fire and rescue services	\$ 403,000	\$ 403,000	\$ 315,940	\$ (87,060)
Charges for sanitation and waste removal	-	-	8,141	8,141
Charges for parks and recreation	25,000	25,000	35,125	10,125
Charges for cemetery	41,500	41,500	60,259	18,759
Charges for other services	500	500	711	211
Total charges for services	<u>\$ 470,000</u>	<u>\$ 470,000</u>	<u>\$ 420,176</u>	<u>\$ (49,824)</u>
Miscellaneous:				
Miscellaneous	\$ 33,275	\$ 174,189	\$ 226,541	\$ 52,352
Recovered costs:				
CSA recoveries	\$ 8,000	\$ 8,000	\$ 436	\$ (7,564)
Other recovered costs	12,000	12,000	44,432	32,432
Total recovered costs	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 44,868</u>	<u>\$ 24,868</u>
Total revenue from local sources	<u>\$ 14,676,926</u>	<u>\$ 14,554,607</u>	<u>\$ 15,479,995</u>	<u>\$ 925,388</u>

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

Schedule 1
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ -	\$ -	\$ 16,443	\$ 16,443
Mobile home titling tax	250	250	1,317	1,067
Motor vehicle rental tax	25,000	25,000	18,529	(6,471)
Telecommunications taxes	225,000	225,000	221,895	(3,105)
Personal property tax relief funds	-	-	543,568	543,568
Other Noncategorical aid	-	-	1,872	1,872
Total noncategorical aid	\$ 250,250	\$ 250,250	\$ 803,624	\$ 553,374
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 88,759	\$ 88,759	\$ 88,674	\$ (85)
Treasurer	77,374	77,374	76,310	(1,064)
Registrar/electoral board	50,537	50,537	57,692	7,155
Total shared expenses	\$ 216,670	\$ 216,670	\$ 222,676	\$ 6,006
Other categorical aid:				
Welfare payments	\$ 252,944	\$ 252,944	\$ 66,895	\$ (186,049)
CSA payments	1,562,566	1,562,566	1,117,010	(445,556)
Litter control grant	5,400	7,559	7,559	-
VDOT Transportation Grant	-	-	10,142	10,142
Fire program	20,000	20,000	30,000	10,000
Asset forfeiture	1,000	1,000	-	(1,000)
Law enforcement block grant	285,964	285,964	285,990	26
State highway payments	1,188,391	1,188,391	1,209,001	20,610
E-911 grant program	47,963	47,963	54,603	6,640
OEMS grant	62,981	62,981	-	(62,981)
VA commission for the arts	4,500	4,500	4,500	-
Other State funds	10,695	10,695	1,150	(9,545)
Total other categorical aid	\$ 3,442,404	\$ 3,444,563	\$ 2,786,850	\$ (657,713)
Total categorical aid	\$ 3,659,074	\$ 3,661,233	\$ 3,009,526	\$ (651,707)
Total revenue from the Commonwealth	\$ 3,909,324	\$ 3,911,483	\$ 3,813,150	\$ (98,333)
Revenue from the federal government:				
Categorical aid:				
DMV occupant protection grant	\$ 5,300	\$ 5,300	\$ -	\$ (5,300)
Transportation enhancement grant	-	234,913	149,994	(84,919)
Disaster recovery	9,287	9,287	9,619	332
Byrne criminal justice grant	3,000	3,000	-	(3,000)
CDBG Grant	-	25,000	10,500	(14,500)
Public assistance and welfare administration	30,000	30,000	100,966	70,966
Other federal aid	-	61,905	-	(61,905)
Total categorical aid	\$ 47,587	\$ 369,405	\$ 271,079	\$ (98,326)
Total revenue from the federal government	\$ 47,587	\$ 369,405	\$ 271,079	\$ (98,326)
Total General Fund	\$ 18,633,837	\$ 18,835,495	\$ 19,564,224	\$ 728,729

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

Schedule 1
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Special Revenue Funds:				
CARES Fund:				
Revenue from the federal government:				
Categorical aid:				
CARES Act COVID-19 Grant	\$ -	\$ 258,569	\$ 122,475	\$ (136,094)
Total categorical aid	\$ -	\$ 258,569	\$ 122,475	\$ (136,094)
Total revenue from the federal government	\$ -	\$ 258,569	\$ 122,475	\$ (136,094)
Total CARES Fund	\$ -	\$ 258,569	\$ 122,475	\$ (136,094)
ARPA Fund:				
Revenue from the federal government:				
Categorical aid:				
ARPA - State and Local Fiscal Recovery	\$ -	\$ 3,410,730	\$ 7,973	\$ (3,402,757)
ARPA - Utility Assistance Program	-	83,652	83,652	-
ARPA - Virginia Tourism Corporation	-	15,000	15,000	-
Total categorical aid	\$ -	\$ 3,509,382	\$ 106,625	\$ (3,402,757)
Total revenue from the federal government	\$ -	\$ 3,509,382	\$ 106,625	\$ (3,402,757)
Total ARPA Fund	\$ -	\$ 3,509,382	\$ 106,625	\$ (3,402,757)
Total Primary Government	\$ 18,633,837	\$ 22,603,446	\$ 19,793,324	\$ (2,789,723)
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ 500	\$ 500	\$ 300	\$ (200)
Total revenue from use of money and property	\$ 500	\$ 500	\$ 300	\$ (200)
Miscellaneous:				
Miscellaneous	\$ 65,352	\$ 65,352	\$ 185,645	\$ 120,293
Recovered costs:				
Payments from other localities	\$ 38,375	\$ 38,375	\$ 20,996	\$ (17,379)
Total revenue from local sources	\$ 104,227	\$ 104,227	\$ 206,941	\$ 102,714
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Covington, Virginia	\$ 2,644,872	\$ 2,644,872	\$ 2,425,613	\$ (219,259)
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 17,757	\$ 17,757	\$ 18,115	\$ 358
VA preschool initiative	179,028	179,028	97,652	(81,376)
At risk payments	305,118	305,118	290,489	(14,629)
Basic school aid	3,566,717	3,566,717	3,232,591	(334,126)
Project graduation/senior year	3,507	3,507	3,581	74
Early reading intervention	45,350	45,350	52,908	7,558
Education technology payment	128,000	128,000	163,966	35,966
English as a second language	4,068	4,068	4,068	-
Fringe benefits	547,686	547,686	522,205	(25,481)

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

Schedule 1
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Gifted and talented	\$ 34,647	\$ 34,647	\$ 33,035	\$ (1,612)
ISAP program	8,386	8,386	8,233	(153)
Lottery funds	-	-	13,042	13,042
Mentor teacher program	675	675	209	(466)
Primary class size	155,071	155,071	142,895	(12,176)
Remedial education	159,908	159,908	152,469	(7,439)
Remedial summer education	3,862	3,862	66,434	62,572
Share of state sales tax	1,032,147	1,032,147	1,290,935	258,788
Social security fringe benefits	227,869	227,869	217,268	(10,601)
Special education	549,018	549,018	523,475	(25,543)
Special education - regional tuition	132,659	132,659	134,591	1,932
Vocational education	93,946	93,946	89,575	(4,371)
Vocational education - equipment	2,663	2,663	4,692	2,029
Textbook payment	71,606	71,606	55,232	(16,374)
VA workplace readiness	-	-	140	140
Infrastructure and operations	269,370	269,370	258,182	(11,188)
Learning loss PPA funds	-	-	117,432	117,432
Other categorical aid	13,768	13,768	15,629	1,861
Total categorical aid	\$ 7,794,632	\$ 7,794,632	\$ 7,739,607	\$ (55,025)
Total revenue from the Commonwealth	\$ 7,794,632	\$ 7,794,632	\$ 7,739,607	\$ (55,025)
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 260,000	\$ 260,000	\$ 280,477	\$ 20,477
Title VI, rural and low income schools	18,000	18,000	23,784	5,784
Title VI-B, special education flow-through	226,482	226,482	214,653	(11,829)
Title IV-Part A LEA	-	-	20,180	20,180
Vocational education	17,800	17,800	23,317	5,517
Title VI-B, special education pre-school	10,273	10,273	14,157	3,884
Title II, Part A	36,000	36,000	37,242	1,242
Gov Emerg Education Relief-GEER	104,458	104,458	-	(104,458)
CARES Act ESSERF II	-	1,790,868	1,015,216	(775,652)
Total categorical aid	\$ 673,013	\$ 2,463,881	\$ 1,629,026	\$ (834,855)
Total revenue from the federal government	\$ 673,013	\$ 2,463,881	\$ 1,629,026	\$ (834,855)
Total School Operating Fund	\$ 11,216,744	\$ 13,007,612	\$ 12,001,187	\$ (1,006,425)
School Cafeteria Fund:				
Revenue from local sources:				
Charges for services:				
Cafeteria sales	\$ 38,000	\$ 38,000	\$ 188	\$ (37,812)
Total revenue from local sources	\$ 38,000	\$ 38,000	\$ 188	\$ (37,812)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food program grant	\$ 10,265	\$ 10,265	\$ 2,725	\$ (7,540)

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Cafeteria Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Total revenue from the Commonwealth	\$ 10,265	\$ 10,265	\$ 2,725	\$ (7,540)
Revenue from the federal government:				
Categorical aid:				
School food program grants	\$ 320,000	\$ 320,000	\$ 573,711	\$ 253,711
Other categorical aid	-	6,762	-	(6,762)
Total categorical aid	\$ 320,000	\$ 326,762	\$ 573,711	\$ 246,949
Total revenue from the federal government	\$ 320,000	\$ 326,762	\$ 573,711	\$ 246,949
Total School Cafeteria Fund	\$ 368,265	\$ 375,027	\$ 576,624	\$ 201,597
Total Discretely Presented Component Unit - School Board	\$ 11,585,009	\$ 13,382,639	\$ 12,577,811	\$ (804,828)

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

Schedule 2
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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
City council	\$ 42,865	\$ 74,107	\$ 74,110	\$ (3)
City clerk	18,498	11,650	11,650	-
Total legislative	\$ 61,363	\$ 85,757	\$ 85,760	\$ (3)
General and financial administration:				
City manager	\$ 280,557	\$ 276,235	\$ 276,235	\$ -
Human resources	24,600	8,165	8,165	-
Information technology	194,067	198,330	139,121	59,209
Legal services	92,835	105,712	105,707	5
Commissioner of revenue	254,366	252,686	252,684	2
Independent auditors	72,532	72,379	72,379	-
Treasurer	303,818	309,271	309,271	-
Central accounting	418,303	465,267	442,565	22,702
Total general and financial administration	\$ 1,641,078	\$ 1,688,045	\$ 1,606,127	\$ 81,918
Board of elections:				
Electoral board and officials	\$ 111,948	\$ 118,388	\$ 118,388	\$ -
Total general government administration	\$ 1,814,389	\$ 1,892,190	\$ 1,810,275	\$ 81,915
Judicial administration:				
Courts:				
Circuit court	\$ 22,266	\$ 22,266	\$ 22,266	\$ -
General district court	6,751	6,751	6,751	-
Magistrates office	12,790	12,790	5,514	7,276
Clerk of the circuit court	53,740	53,740	53,740	-
Sheriff (court)	122,509	122,509	122,509	-
Courthouse security	25,323	25,323	25,323	-
Total courts	\$ 243,379	\$ 243,379	\$ 236,103	\$ 7,276
Commonwealth's attorney:				
Commonwealth's attorney	\$ 74,642	\$ 74,642	\$ 74,642	\$ -
Total judicial administration	\$ 318,021	\$ 318,021	\$ 310,745	\$ 7,276
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,760,022	\$ 1,768,680	\$ 1,564,783	\$ 203,897
Sheriff	650,088	650,088	650,088	-
E-911	677,916	677,915	632,529	45,386
School resource officer	54,902	66,644	66,644	-
Seizure/forfeiture funds	1,500	8,504	1,649	6,855
Total law enforcement and traffic control	\$ 3,144,428	\$ 3,171,831	\$ 2,915,693	\$ 256,138
Fire and rescue services:				
Volunteer fire department	\$ 252,344	\$ 966,706	\$ 409,635	\$ 557,071
Ambulance service	699,379	705,827	573,468	132,359
Total fire and rescue services	\$ 951,723	\$ 1,672,533	\$ 983,103	\$ 689,430
Inspections:				
Building	\$ 216,752	\$ 236,182	\$ 141,921	\$ 94,261
Other protection:				
Animal control	\$ 69,129	\$ 74,069	\$ 72,951	\$ 1,118
Medical examiner	100	160	160	-
Total other protection	\$ 69,229	\$ 74,229	\$ 73,111	\$ 1,118
Total public safety	\$ 4,382,132	\$ 5,154,775	\$ 4,113,828	\$ 1,040,947

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

Schedule 2
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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 45,000	\$ 49,513	\$ 49,513	\$ -
Street department	1,498,293	1,728,694	1,331,932	396,762
Snow and ice removal	23,500	40,485	30,722	9,763
Traffic engineering	105,582	105,583	85,036	20,547
Street cleaning	15,000	15,000	1,569	13,431
Street lights	165,000	165,000	162,526	2,474
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 1,852,375</u>	<u>\$ 2,104,275</u>	<u>\$ 1,661,298</u>	<u>\$ 442,977</u>
Sanitation and waste removal:				
Litter control grant	\$ 5,400	\$ 7,559	\$ 7,559	\$ -
Maintenance of general buildings and grounds:				
General properties	\$ 482,348	\$ 482,349	\$ 438,495	\$ 43,854
Motor vehicular maintenance	221,754	221,754	193,521	28,233
Total maintenance of general buildings and grounds	<u>\$ 704,102</u>	<u>\$ 704,103</u>	<u>\$ 632,016</u>	<u>\$ 72,087</u>
Total public works	<u>\$ 2,561,877</u>	<u>\$ 2,815,937</u>	<u>\$ 2,300,873</u>	<u>\$ 515,064</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 100,781	\$ 100,781	\$ 98,987	\$ 1,794
Mental health and mental retardation:				
Alleghany Highlands community services board	\$ 82,566	\$ 82,566	\$ 82,566	\$ -
Welfare:				
Radar transportation Service	\$ 15,204	\$ 15,204	\$ -	\$ 15,204
Feeding America	2,500	2,500	2,500	-
Safehomes, Inc.	1,800	1,800	1,800	-
Alleghany Highlands CSA foster care	2,134,008	2,116,273	1,517,499	598,774
Social Services	296,653	314,388	314,387	1
Other contributions	5,900	5,900	5,900	-
Property tax relief for the elderly	-	-	33,438	(33,438)
Total welfare	<u>\$ 2,456,065</u>	<u>\$ 2,456,065</u>	<u>\$ 1,875,524</u>	<u>\$ 580,541</u>
Total health and welfare	<u>\$ 2,639,412</u>	<u>\$ 2,639,412</u>	<u>\$ 2,057,077</u>	<u>\$ 582,335</u>
Education:				
Other instructional costs:				
Contributions to Community College	\$ 2,983	\$ 2,983	\$ 2,983	\$ -
Contribution to City School Board	2,644,872	2,644,872	2,341,300	303,572
Total education	<u>\$ 2,647,855</u>	<u>\$ 2,647,855</u>	<u>\$ 2,344,283</u>	<u>\$ 303,572</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 1,159,817	\$ 1,222,776	\$ 1,222,776	\$ -
Cultural enrichment:				
Senior center	\$ 107,183	\$ 83,290	\$ 82,741	\$ 549
Cemetery	260,955	246,739	246,739	-
League of older Americans	2,734	2,734	2,734	-
YMCA	3,100	3,100	3,100	-
Alleghany Highlands arts council	6,480	6,480	6,480	-
Alleghany Highlands arts/craft center	2,520	2,520	2,520	-
Foundation Grants	-	134,314	85,841	48,473
Total cultural enrichment	<u>\$ 382,972</u>	<u>\$ 479,177</u>	<u>\$ 430,155</u>	<u>\$ 49,022</u>

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

Schedule 2
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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Parks, recreation, and cultural: (continued)				
Library:				
Contribution to regional library	\$ 129,768	\$ 129,768	\$ 129,768	\$ -
Total parks, recreation, and cultural	\$ 1,672,557	\$ 1,831,721	\$ 1,782,699	\$ 49,022
Community development:				
Planning and community development:				
Planning commission	\$ 3,585	\$ 921	\$ 888	\$ 33
Workforce development	854	854	854	-
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	250	250	228	22
Economic development	224,240	278,657	278,657	-
CDBG program	-	4,100	4,100	-
Total planning and community development	\$ 248,929	\$ 304,782	\$ 304,727	\$ 55
Environmental management:				
Contribution to soil and water district	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Cooperative extension program:				
Extension office	\$ 7,695	\$ 7,695	\$ 5,281	\$ 2,414
Total community development	\$ 259,624	\$ 315,477	\$ 313,008	\$ 2,469
Nondepartmental:				
Contingencies	\$ 85,000	\$ 10,146	\$ -	\$ 10,146
Other nondepartmental	308,407	302,885	218,124	84,761
Total nondepartmental	\$ 393,407	\$ 313,031	\$ 218,124	\$ 94,907
Debt service:				
Principal retirement	\$ 1,444,856	\$ 1,444,856	\$ 1,539,993	\$ (95,137)
Interest and other fiscal charges	623,517	642,036	707,440	(65,404)
Bond issuance costs	-	127,944	134,574	(6,630)
Total debt service	\$ 2,068,373	\$ 2,214,836	\$ 2,382,007	\$ (167,171)
Total General Fund	\$ 18,757,647	\$ 20,143,255	\$ 17,632,919	\$ 2,510,336
Special Revenue Funds:				
CARES Fund:				
General government administration:				
General and financial administration:				
General government	\$ -	\$ 254,167	\$ 156,222	\$ 97,945
Public safety:				
General public safety:				
Public safety	\$ -	\$ 295	\$ 295	\$ -
Public works:				
General public works:				
Public works	\$ -	\$ 273	\$ 273	\$ -
Health and welfare:				
General health and welfare:				
Health and welfare	\$ -	\$ 3,500	\$ 3,500	\$ -
Parks, recreation, and cultural:				
General parks, recreation, and cultural:				
Parks, recreation, and cultural	\$ -	\$ 172	\$ 172	\$ -
Total CARES Fund	\$ -	\$ 258,407	\$ 160,462	\$ 97,945

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

Schedule 2
Page 4 of 5

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Special Revenue Funds: (Continued)				
ARPA Fund:				
General government administration:				
General and financial administration:				
General government	\$ -	\$ 3,410,730	\$ 7,973	\$ 3,402,757
Public works:				
General public works:				
Public works	\$ -	\$ 83,652	\$ 83,652	\$ -
Community development:				
General community development:				
Tourism	\$ -	\$ 15,000	\$ 15,000	\$ -
Total ARPA Fund	\$ -	\$ 3,509,382	\$ 106,625	\$ 3,402,757
Capital Projects Fund:				
Capital projects	\$ -	\$ 3,172,333	\$ 29,368	\$ 3,142,965
Total capital projects	\$ -	\$ 3,172,333	\$ 29,368	\$ 3,142,965
Debt service:				
Bond issuance costs	\$ -	\$ 50,500	\$ 47,358	\$ 3,142
Total debt service	\$ -	\$ 50,500	\$ 47,358	\$ 3,142
Total City Capital Projects Fund	\$ -	\$ 3,222,833	\$ 76,726	\$ 3,146,107
Permanent Fund				
Cemetery Fund:				
Public works:				
General public works:				
Cemetery	\$ -	\$ -	\$ 20,399	\$ 20,399
Total Cemetery Fund	\$ -	\$ -	\$ 20,399	\$ 20,399
Total Primary Government	\$ 18,757,647	\$ 27,133,877	\$ 17,997,131	\$ 9,177,544
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Education:				
Administration of schools:				
Attendance and health services	\$ 1,113,176	\$ 1,405,214	\$ 1,366,051	\$ 39,163
Instruction costs:				
Instruction costs	\$ 8,109,619	\$ 8,213,711	\$ 8,053,747	\$ 159,964
Operating costs:				
Pupil transportation	\$ 389,157	\$ 426,506	\$ 376,685	\$ 49,821
Operation and maintenance of school plant	1,032,687	1,665,009	1,430,881	234,128
Facilities	155,644	562,652	397,509	165,143
Technology	279,883	597,942	309,546	288,396
Total operating costs	\$ 1,857,371	\$ 3,252,109	\$ 2,514,621	\$ 737,488
Total education	\$ 11,080,166	\$ 12,871,034	\$ 11,934,419	\$ 936,615
Debt service:				
Principal retirement	\$ -	\$ -	\$ 37,253	\$ (37,253)
Interest and other fiscal charges	-	-	3,039	(3,039)
Total debt service	\$ -	\$ -	\$ 40,292	\$ (40,292)
Total School Operating Fund	\$ 11,080,166	\$ 12,871,034	\$ 11,974,711	\$ 896,323

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

Schedule 2
Page 5 of 5

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Cafeteria Fund:				
Education:				
School food services:				
Administration of school food program	\$ 504,843	\$ 511,605	\$ 528,489	\$ (16,884)
Reversion of excess funds to Primary Government	-	-	84,313	(84,313)
Total school food services	<u>\$ 504,843</u>	<u>\$ 511,605</u>	<u>\$ 612,802</u>	<u>\$ (101,197)</u>
Total School Cafeteria Fund	<u>\$ 504,843</u>	<u>\$ 511,605</u>	<u>\$ 612,802</u>	<u>\$ (101,197)</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 11,585,009</u>	<u>\$ 13,382,639</u>	<u>\$ 12,587,513</u>	<u>\$ 795,126</u>

Other Statistical Section

City of Covington, Virginia
Government-Wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water Department	Sewer Department	Solid Waste Department	Total
2021-22	\$ 1,848,535	\$ 310,745	\$ 4,199,120	\$ 2,524,691	\$ 2,062,817	\$ 2,949,139	\$ 1,531,584	\$ 357,376	\$ 929,248	\$ 1,649,494	\$ 1,794,434	\$ 1,329,792	\$ 21,486,975
2020-21	1,973,555	285,912	4,064,575	5,253,287	2,461,954	2,804,990	1,773,009	290,692	697,453	1,694,954	1,817,185	1,395,865	24,513,431
2019-20	1,671,355	210,940	4,000,830	2,042,449	2,100,392	3,585,705	2,064,533	504,066	721,741	1,711,375	1,725,736	1,986,802	22,325,924
2018-19	1,796,717	210,420	4,190,785	2,616,848	1,986,049	3,739,401	1,929,019	152,906	787,415	1,515,469	1,767,744	1,798,195	22,490,968
2017-18	1,596,965	193,309	3,824,213	5,315,732	1,928,602	3,574,098	1,868,116	252,110	1,018,605	1,512,416	1,635,976	-	22,720,142
2016-17	1,844,066	175,314	3,498,357	3,030,315	1,869,565	4,402,502	1,817,301	139,329	872,594	1,263,423	1,606,706	-	20,519,472
2015-16	1,917,011	199,965	3,460,421	2,934,344	1,342,892	3,995,718	1,324,136	97,984	1,074,337	1,054,462	1,473,877	-	18,875,147
2014-15	1,509,994	295,423	3,366,041	2,598,684	1,498,921	4,304,188	1,568,825	110,143	1,211,614	1,093,836	1,459,626	-	19,017,295
2013-14	1,569,154	164,988	3,152,116	2,702,655	1,448,418	4,064,623	1,515,073	77,718	1,135,754	1,114,862	1,256,623	-	18,201,984
2012-13	1,401,609	124,651	2,889,561	2,837,163	1,351,070	4,292,522	1,400,941	99,723	1,003,044	1,304,304	1,206,873	-	17,911,461

Table 2

City of Covington, Virginia
Government-Wide Revenues
Last Ten Fiscal Years

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total
2021-22	\$ 5,841,702	\$ 3,294,608	\$ 327,867	\$ 10,320,929	\$ 4,362,187	\$ 28,813	\$ 367,241	\$ 803,624	\$ 25,346,971
2020-21	5,967,380	4,432,625	556,220	10,009,099	4,124,558	153,946	75,074	831,269	26,150,171
2019-20	6,369,994	3,042,172	560,134	9,168,292	3,974,923	101,713	93,435	843,577	24,154,240
2018-19	6,476,138	3,339,954	278,646	8,837,051	4,094,054	122,172	87,514	858,084	24,093,613
2017-18	5,687,638	3,812,846	523,817	8,635,037	3,847,681	96,348	105,896	856,277	23,565,540
2016-17	5,601,467	2,750,744	43,472	8,389,499	3,789,785	92,931	190,770	893,492	21,752,160
2015-16	5,048,173	2,525,991	9,090	8,137,262	3,647,128	32,364	543,348	884,099	20,827,455
2014-15	5,009,483	2,405,973	55,382	7,917,708	3,656,977	51,153	140,692	893,422	20,130,790
2013-14	4,368,558	2,442,710	632,377	6,969,022	3,660,422	78,598	243,652	899,272	19,294,611
2012-13	4,045,390	2,467,313	468,882	6,763,991	3,979,168	80,082	14,490	893,226	18,712,542

City of Covington, Virginia
General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Government Administration											Total
	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural	Community Development	Capital Projects	Non-departmental	Debt Service (3)		
2021-22	\$ 1,974,470	\$ 310,745	\$ 4,114,123	\$ 2,405,197	\$ 2,060,577	\$ 12,762,799	\$ 1,782,871	\$ 328,008	\$ 29,368	\$ 218,124	\$ 2,287,725	\$ 28,274,007
2020-21	2,115,013	285,912	4,066,711	3,031,627	2,461,437	11,170,109	1,608,753	290,692	2,576,730	9,333	2,103,059	29,719,376
2019-20	1,818,377	210,940	3,781,616	2,197,165	2,113,135	11,215,189	1,957,001	504,066	414,963	1,100	2,106,243	26,319,795
2018-19	1,975,272	210,420	4,131,406	2,619,371	2,116,379	11,389,063	1,874,324	232,781	435,649	14,683	2,091,683	27,091,031
2017-18	1,713,498	193,309	3,814,167	4,920,549	1,937,894	11,182,920	1,736,080	252,110	4,331,586	5,840	1,990,332	32,078,285
2016-17	1,897,928	175,314	3,355,693	2,939,220	1,910,817	11,445,748	1,689,096	139,329	381,951	144,930	1,870,305	25,950,331
2015-16	1,949,443	199,965	4,007,619	3,025,459	1,352,724	10,428,972	2,139,810	97,984	308,714	22,730	2,049,392	25,582,812
2014-15	1,508,481	295,423	3,403,939	2,692,712	1,520,875	10,300,287	1,636,406	110,143	657,271	30,688	1,598,984	23,755,209
2013-14	1,442,101	164,988	3,000,898	2,470,238	1,455,490	10,103,530	1,544,455	85,394	333,530	135,264	1,204,549	21,940,437
2012-13	1,366,664	124,651	3,283,642	2,469,270	1,377,241	10,343,711	1,269,112	99,723	226,457	-	1,445,138	22,005,609

(1) Includes all governmental funds of the Primary Government and its Discretely Presented Component Unit.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit.

(3) For fiscal year 2013-14, excludes refunding of \$15,279,100 and related bond issuance cost of \$71,526. For Fiscal Year 2015-16, excludes bond issuance cost of \$48,867. For Fiscal Year 2017-18, excludes bond issuance cost of \$45,000. For fiscal year 2020-21, excludes bond issuance cost of \$7,500. For fiscal year 2021-2022, excludes bond issuance cost of \$181,932.

Table 4

City of Covington, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property		Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2021-22	\$ 10,347,104	\$ 4,362,187	\$ 22,572	\$ 4,520	\$ 52,327	\$ 528,190	\$ 412,186	\$ 65,864	\$ 14,258,398	\$ 30,053,348	
2020-21	10,000,965	4,124,558	13,673	2,273	152,599	456,045	143,401	49,563	14,635,287	29,578,364	
2019-20	9,138,139	3,974,923	19,087	3,579	93,383	462,957	235,509	57,000	12,484,537	26,469,114	
2018-19	8,796,076	4,094,054	18,006	3,324	112,814	532,436	156,651	50,663	12,393,696	26,157,720	
2017-18	8,726,512	3,847,681	38,143	7,061	89,207	1,597,226	204,094	74,589	12,858,781	27,443,294	
2016-17	8,326,893	3,789,785	7,849	4,709	88,565	1,456,599	273,550	102,615	11,322,775	25,373,340	
2015-16	8,060,434	3,647,128	11,397	2,934	28,209	1,358,395	559,184	85,491	10,554,857	24,308,029	
2014-15	7,936,275	3,656,977	14,612	6,035	45,956	1,599,911	202,542	53,881	10,227,426	23,743,615	
2013-14	6,883,416	3,660,422	11,102	7,488	71,181	1,185,004	316,127	109,596	10,000,137	22,244,473	
2012-13	6,734,155	3,979,168	14,758	7,613	80,839	986,993	266,252	85,741	9,796,144	21,951,663	

(1) Includes all governmental funds of the Primary Government and its Discretely Presented Component Unit.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit.

Table 5

City of Covington, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1,3)	Current Tax Collections (1,3)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,2)	Percent of Delinquent Taxes to Tax Levy
2021-22	\$ 10,656,943	\$ 10,499,764	98.53%	\$ 238,910	10,738,674	100.77%	\$ 722,053	6.78%
2020-21	10,270,769	10,011,483	97.48%	196,901	10,208,384	99.39%	699,710	6.81%
2019-20	9,578,402	9,383,237	97.96%	187,709	9,570,946	99.92%	732,257	7.64%
2018-19	9,223,782	9,047,685	98.09%	192,428	9,240,113	100.18%	681,446	7.39%
2017-18	8,995,492	8,864,919	98.55%	241,157	9,106,076	101.23%	633,196	7.04%
2016-17	8,762,926	8,597,806	98.12%	178,911	8,776,717	100.16%	706,988	8.07%
2015-16	8,515,950	8,355,485	98.12%	142,120	8,497,605	99.78%	632,340	7.43%
2014-15	8,280,409	8,140,031	98.30%	143,259	8,283,290	100.03%	600,070	7.25%
2013-14	7,368,660	7,235,703	98.20%	117,095	7,352,798	99.78%	579,245	7.86%
2012-13	7,676,550	7,565,315	98.55%	86,064	7,651,379	99.67%	473,991	6.17%

(1) Exclusive of penalties and interest.

(2) Delinquent tax collections are exclusive of land redemptions.

(3) Includes amounts paid under the Personal Property Tax Relief Act.

City of Covington, Virginia
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate (1)	Personal Property and Mobile Homes (3)	Machinery and Tools (4)	Public Utility (2)		Total
				Real Estate	Personal Property	
2021-22	\$ 294,243,024	\$ 77,556,938	\$ 142,863,071	\$ 252,477,381	\$ -	\$ 767,140,414
2020-21	296,061,600	56,485,905	136,534,670	240,961,221	-	730,043,396
2019-20	286,904,100	54,114,100	124,530,900	251,428,671	-	716,977,771
2018-19	286,739,177	54,043,442	124,530,900	251,428,671	-	716,742,190
2017-18	286,469,600	28,968,320	57,467,260	280,844,236	12,505	653,761,921
2016-17	286,698,566	29,259,446	54,576,920	281,858,971	12,555	652,406,458
2015-16	286,142,709	29,184,062	51,151,310	275,694,537	61,141	642,233,759
2014-15	274,495,282	27,925,181	51,856,052	269,623,842	-	623,900,357
2013-14	274,016,639	26,072,593	55,549,130	100,018,610	-	455,656,972
2012-13	272,817,085	27,087,296	74,874,215	25,072,535	110,208	399,961,339

(1) Real estate is assessed at 100% of fair market value.

(2) Assessed values are established by the State Corporation Commission.

(3) Prior to fiscal year 2019, personal property taxes were assessed at 55% NADA. The subsequent years are assessed at 100%.

Also, business personal property were assessed at 10% original costs prior to fiscal year 2019, subsequent years are assessed at 20%.

(4) Prior to fiscal year 2019, machinery and tools taxes were assessed at 15%. The subsequent years are assessed at 30%.

Table 7

**City of Covington, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years**

Fiscal Year	Real Estate	Mobile Homes	Personal Property (2)	Machinery and Tools (2)
2021-22 (4)	\$ 0.85	\$ 0.85	\$ 3.08	\$ 2.76
2020-21	0.80	0.80	3.08	2.76
2019-20	0.80	0.80	3.08	2.76
2018-19 (3)	0.80	0.80	3.08	2.76
2017-18	0.76	0.76	5.60	5.52
2016-17	0.75	0.75	5.60	5.52
2015-16	0.73	0.73	5.60	5.52
2014-15	0.71	0.71	5.60	5.52
2013-14	0.69	0.69	5.60	5.52
2012-13	0.69	0.69	5.60	5.52

(1) Per \$100 of assessed value.

(2) See Table 6 for change in assessment methods.

(3) Rates shown for mobile homes, personal property and machinery and tools are for 1st half 2019. 2nd half 2018 are same as rates shown for 2017-18.

(4) Rate shown for mobile homes is for 1st half 2022. The 2nd half 2021 is the same as rates shown for 2020-2021.

Table 8

City of Covington, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2021-22	5,717	\$ 767,140	\$ 22,627,195	2.95%	\$ 3,958
2020-21	5,737	730,043	25,272,099	3.46%	4,405
2019-20	5,961	716,978	24,306,355	3.39%	4,078
2018-19	5,961	716,742	25,591,444	3.57%	4,293
2017-18	5,961	653,762	26,834,679	4.10%	4,502
2016-17	5,961	652,406	25,434,047	3.90%	4,267
2015-16	5,961	642,234	25,591,275	3.98%	4,293
2014-15	5,961	623,900	25,238,699	4.05%	4,234
2013-14	5,961	455,657	25,577,766	5.61%	4,291
2012-13	5,961	399,961	28,957,022	7.24%	4,858

(1) Bureau of the Census.

(2) Real property assessed at 100% of fair market value.

(3) Includes all long-term general obligation bonded debt, bond anticipation notes, and literary fund loans. Excludes revenue bonds, landfill closure/post-closure care liability, lease liabilities, finance purchases, and compensated absences.

Table 9

City of Covington, Virginia
Ratio of Annual Debt Service Expenditures for General Bonded
Debt to Total General Governmental Expenditures (1)
Last Ten Fiscal Years

Fiscal Year	Principal (3)	Interest (2)	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2021-22	\$ 1,577,246	\$ 710,479	\$ 2,287,725	\$ 28,274,007	8.09%
2020-21	1,434,952	668,107	2,103,059	29,719,376	7.08%
2019-20	1,363,113	702,837	2,065,950	26,319,795	7.85%
2018-19	1,322,490	740,265	2,062,755	27,091,031	7.61%
2017-18	1,207,659	782,673	1,990,332	32,078,285	6.20%
2016-17	1,093,100	777,205	1,870,305	25,950,331	7.21%
2015-16	979,534	1,067,484	2,047,018	25,582,812	8.00%
2014-15	707,440	1,187,259	1,894,699	23,755,209	7.98%
2013-14	314,436	890,113	1,204,549	21,940,437	5.49%
2012-13	473,155	971,983	1,445,138	22,005,609	6.57%

(1) Includes General fund of the Primary Government and Operating Fund
of the Discretely Presented Component Unit - School Board.

(2) Excludes bond issuance and other costs.

(3) Excludes refinancing of bond anticipation note and refunding of general obligation bond.

**City of Covington, Virginia
Computation of Legal Debt Margin
At June 30, 2022**

Legal Debt Limit:

10% of Assessed Value of Taxable Real Estate \$294,243,024	\$ 29,424,302
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Deduct:

Debt Payable	22,627,195
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Legal Margin for Creation of Additional Debt	<u>\$ 6,797,107</u>
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COMPLIANCE SECTION



**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

**To the Honorable Members of the City Council
City of Covington, Virginia
Covington, Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Covington, Virginia's basic financial statements and have issued our report thereon dated November 27, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Covington, Virginia's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Covington, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Virginia's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Covington, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Covington, Virginia's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Covington, Virginia's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Covington, Virginia's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Fawcett, & Associates

Blacksburg, Virginia
November 27, 2022



**Independent Auditors' Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance**

To the Honorable Members of the City Council
City of Covington, Virginia
Covington, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Covington, Virginia's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Covington, Virginia's major federal programs for the year ended June 30, 2022. City of Covington, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Covington, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Covington, Virginia and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Covington, Virginia's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Covington, Virginia's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Covington, Virginia's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Covington, Virginia's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Covington, Virginia's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Covington, Virginia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Covington, Virginia's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Polina, Fane, Cox Associates

Blacksburg, Virginia
November 27, 2022

City of Covington, Virginia
Schedule of Expenditures of Federal Awards (SEFA)
For the Year Ended June 30, 2022

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number			Federal Expenditures
DEPARTMENT OF AGRICULTURE:					
Pass Through Payments:					
<i>Virginia Department of Agriculture and Consumer Services:</i>					
COVID-19 Pandemic EBT Administrative Costs	10.649	DOE86556			\$ 3,064
Child Nutrition Cluster:					
Food Distribution-Schools (Note 3)	10.555	Not available	\$ 7,124		
<i>Virginia Department of Education:</i>					
National School Lunch Program	10.555	APE40254, APE41106, APE41108, DOE86557	423,436	\$ 430,560	
School Breakfast Program	10.553	APE40253, APE4111		132,718	
Summer Food Service Program for Children	10.559	APE60302, APE60303		7,369	570,647
Total Department of Agriculture					<u>\$ 573,711</u>
DEPARTMENT OF EDUCATION:					
Pass Through Payments:					
<i>Virginia Department of Education:</i>					
Title I - Grants to Local Educational Agencies	84.010	APE42901			\$ 280,477
Special Education Cluster:					
Special Education - Grants to States	84.027	APE43071		\$ 214,653	
Special Education - Preschool Grants	84.173	APE40286, APE62521		14,157	
Total Special Education Cluster					228,810
Career and Technical Education - Basic Grants to States	84.048	APE60031			23,317
Rural Education	84.358	APE43481			23,784
Competitive Grants for State Assessments	84.367	APE61480			37,242
Student Support and Academic Enrichment Program	84.424	APE60281			20,180
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425D	APE5019, APE60177		\$ 284,383	
COVID-19 American Rescue Plan Elementary and Secondary School Emergency Relief Funds	84.425U	APE50193		730,833	1,015,216
Total Department of Education					<u>\$ 1,629,026</u>
DEPARTMENT OF TREASURY:					
Pass Through Payments:					
<i>Virginia Department of Accounts:</i>					
COVID-19 - Coronavirus Relief Fund	21.019	SLT0022			\$ 122,475
<i>Virginia Tourism Corporation:</i>					
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	Not available		\$ 15,000	
<i>Virginia Department of Housing and Community Development:</i>					
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	Not available		83,652	
Direct Payments:					
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	Not applicable		7,973	106,625
Total Department of Treasury					<u>\$ 229,100</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:					
Pass Through Payments:					
<i>Virginia Department of Housing and Community Development:</i>					
Community Development Block Grant/State's Program and Non-entitlement Grants in Hawaii	14.228	CAMS 19PG28			\$ 10,500
DEPARTMENT OF HOMELAND SECURITY:					
Pass Through Payments:					
<i>Virginia Department of Emergency Management:</i>					
Emergency Management Performance Grants	97.042	EMP-2020-EP-00005			\$ 9,619
DEPARTMENT OF TRANSPORTATION:					
Pass Through Payments:					
<i>Virginia Department of Transportation:</i>					
Highway Planning and Construction Cluster:					
Highway Planning and Construction	20.205	EN17-107-109, P101, M501			\$ 149,994
ENVIRONMENTAL PROTECTION AGENCY:					
Pass Through Payments:					
<i>Virginia Resource Authority:</i>					
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	C-515645E			<u>\$ 491,970</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Pass Through Payments:					
<i>Department of Social Services:</i>					
Promoting Safe and Stable Families Program	93.556	0950120, 0950121, 0960120			\$ 1,723
TANF Cluster:					
Temporary Assistance for Needy Families	93.558	0400121			75
Foster Care - Title IV-E	93.658	1100121, 1100122			61,322
Adoption Assistance	93.659	1120122			10,931
Social Services Block Grant	93.667	1000121, 1000122			26,915
Total Department of Health and Human Services					<u>\$ 100,966</u>
Total Expenditures of Federal Awards					<u>\$ 3,194,886</u>

City of Covington, Virginia
Schedule of Expenditures of Federal Awards (SEFA)
For the Year Ended June 30, 2022

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE 1--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Covington, Virginia under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Covington, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Covington, Virginia.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.
- (3) The City did not elect the 10% de minimis indirect cost rate because they only request direct costs for reimbursement.

NOTE 3--FOOD DISTRIBUTION:

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2022, the Covington City School Board held food commodities totaling \$7,124 in inventory.

NOTE 4--SUBRECIPIENTS:

The City did not have any subrecipients for the year ended June 30, 2022.

NOTE 5--RELATIONSHIP TO THE FINANCIAL STATEMENTS:

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary government:	
General Fund	\$ 271,079
CARES Fund	122,475
ARPA Fund	106,625
Sewer Fund	491,970
Total Primary Government	<u>\$ 992,149</u>

Component Unit School Board:

School Operating Fund	\$ 1,629,026
School Cafeteria Fund	573,711
Total Component Unit School Board	<u>\$ 2,202,737</u>

Total Federal Expenditures per Basic Financial Statements	<u><u>\$ 3,194,886</u></u>
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City of Covington, Virginia
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR Section 200.516(a)?	No
Identification of major programs:	

<u>Assistance Listing #</u>	<u>Name of Federal Program or Cluster</u>
84.425	Education Stabilization Funds

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

<u>2022-001</u>	
Criteria:	Bank reconciliations should be performed timely and accurately.
Condition:	The City Treasurer's office is relying on a consultant to reconcile bank accounts. At preliminary fieldwork, the Treasurer's office was months behind reconciling the main bank account.
Effect of Condition:	City management is not provided timely information about the main bank account.
Cause of Condition:	A lack of understanding of the entries generated by the new financial software. Also, the timing of entries being posted add to the difficulty.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2022

Section II - Financial Statement Findings (Continued)

2022-001 (Continued)

Recommendation: The Treasurer's office needs additional training to get them to the point that they can reconcile timely and not rely on consultant.

Management's Response: Management has addressed with part-time staff and authorized additional training. A standard operating procedures will be developed and implemented.

Section III - Federal Award Findings and Questioned Costs

None

City of Covington, Virginia
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2022

Section I - Summary of Auditors' Results

2021-001	Significant Deficiency
Condition:	The City Treasurer's Office lacks proper segregation of duties over the collections process.
Recommendation:	The Treasurer's office should further try to segregate duties amongst current staff to help alleviate risk created by improper segregation of duties.
Current Status:	The segregation of duties issue was resolved.